ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN DECEMBER

The rebound in business activity in December which had been anticipated as a result of the cessation of the steel strike was evident in most indexes. The revised index of industrial production advanced 9 points to 165 (1947-49 = 100), as against the high of 166 reached last May and June. Weekly steel production averaged about the same as in the record spring quarter prior to the strike; and automobile output, although still restricted in the early part of the month by shortages, bounced back to 495,000 cars, nearly double November production. Electric power output was at a record high and freight carloadings ran ahead of the corresponding 1957 and 1958 months.

Adjusted retail sales declined slightly. Preliminary estimates put the seasonally adjusted index of department store sales at 151 percent of the 1947-49 average, 6 points above November and 8 points above the preceding December. However, domestic sales of new cars totaled 361,700, down 13,000 from November.

Construction High

The value of new construction put in place in December amounted to $4.1 billion, a decline of 7 percent from November outlays of $4.4 billion. However, the seasonally adjusted annual rate for December was up 3 percent. Total new private construction fell to $3.1 billion from $3.3 billion in November, but this decline, as was true of all types of construction, was less than seasonal. Expenditures for new private residential buildings declined to $1.8 billion, 8 percent under November but 5 percent above December, 1958. Nonresidential building was down only slightly to $789 million, thus avoiding the usual seasonal decline of 5 percent. Outlays by public utilities were off 7 percent to $417 million.

Expenditures for new public construction declined 10 percent to $1.0 billion in December, but the seasonally adjusted annual rate for the month showed a gain of 4 percent over November. However, the total was down 17 percent from December, 1958.

Agreement in Steel

The settlement of the steel dispute early in January eliminated one major uncertainty in the 1960 economic picture. Estimates of the cost of the wage and other increases agreed upon center around 40 cents an hour in the final contract year, which begins two years after the expiration of the old contract. Direct wage increases presumably account for about half of the total. However, the first of these will not go into effect until December 1, 1960, and general price advances by the steel industry presumably will be postponed until then.

Other provisions will not add much, if anything, to the steelworkers' take-home pay and are conditional in part on developments in the rest of the economy. The controversial work rules issue was referred to a joint committee for study.

Sales, Inventories Down

Reduced sales of automobiles by both manufacturers and retailers in November as a result of curtailed output arising from steel shortages brought total manufacturing and trade sales down $300 million from the preceding month to $59.4 billion, after seasonal adjustment. Sales by manufacturers were off $200 million to $29.2 billion, a decline of $500 million in durables being partly offset by a rise in nondurables. Retail sales declined $500 million to $17.8 billion, although sales of nondurables rose $200 million to $12.2 billion. Wholesalers' volume rose nearly $400 million to $12.3 billion, the increase being about evenly divided between durables and nondurables.

In November the book value of total business inventories continued the decline that began in August as a result of the steel strike. All of the curtailment was in retail stocks, which were off $500 million to $24.2 billion on an adjusted basis, mainly because of smaller supplies of automobiles. Wholesalers' inventories increased slightly to $12.6 billion, and manufacturers' stocks were steady at $51.5 billion. After seasonal adjustment, manufacturers' new orders dropped $1.0 billion to $29.5 billion.

Consumer Borrowing Slows

Another boost in consumer debt occurred in November but the increase was less than in the previous seven months, largely as a result of lower auto sales stemming from the steel strike. Total consumer short- and intermediate-term debt rose $350 million, on a seasonally adjusted basis, to $50.4 billion. Instalment debt advanced an adjusted $375 million, but noninstalment borrowing fell $25 million. Automobile paper accounted for $152 million of the increase in instalment obligations, little more than half the addition that came from this type in the preceding month. Other consumer goods paper, repair and modernization loans, and instalment-type personal loans also increased, the latter by $133 million. The decrease in noninstalment debt reflected reductions, after seasonal adjustment, in single-payment loans and charge accounts.

COLLEGE-AGE YOUTH — HERE THEY COME! · By J. S. Begando and Eunice Parker · Page 8

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Progress or Profiteering

The recent congressional hearings on the pricing of drugs set forth an economic paradox: the way to make profits is not to cut costs but to increase them. A firm can increase costs several hundred percent, double its profits, and at the same time show a more modest profit position because profits as a percent of sales will be reduced by one-half. How is this possible? By means of monopolistic pricing in a market that is stratified and confused by modern selling practices.

A major point brought out in the hearings was that prices of drugs had been marked up 1,000 percent or more from costs of production. The producers, defending their prices, stated that not all costs were taken into account. Specifically, the main items omitted were costs of research and of advertising and selling. It is the inflation of these costs that results in the inflation of prices.

Pushing Up Costs

Research is widely accepted as the basis for progress in medicine as in other fields. Most of the large drug companies maintain active research laboratories, and on the achievements of these laboratories their reputations often depend. No one could wish to disturb this approach to a better future.

The trouble is that much of what is called research does not fit this idealistic picture. As the special article in the November issue of this *Review* pointed out, the tremendous expansion of research activities in recent years has not been primarily aimed at new ideas but has attempted merely to exploit what was already known. Much of it is, in fact, merely a reclassification of activities carried on previously under other titles; and much is directed primarily at selling rather than improving the products sold. Even apart from what is admittedly market research, numerous "research" workers are engaged with trivia of design, packaging, and application — activities intended to entice buyers into parting with their money and not to add anything to their welfare.

This is not confined to drugs but pervades industry. The drug makers actually offend less than others in the proportion of misdirected research but often more in their direct selling efforts, particularly in the expensive advertising campaigns relied on to promote their products. All the way from factory to consumer, everyone engaged in moving the product is offered liberal inducements, and high margins all along the line cumulate into high prices. To justify these prices, it is necessary to create an impression of value where little if any may exist. Hence, the channels of communication are flooded with appeals, threats, and promises, based on half-truths if not on actual falsehoods, and with visual "demonstrations" of fantasies about human anatomy. Even the so-called "educational," direct-to-doctor selling is largely designed to break down the doctor's power of discrimination and pressure him into prescription of a particular variant of a well-known drug.

As a result of these practices, expenditures for research, development, promotion, advertising, and selling are all merged together in a way that makes it difficult to distinguish real values from waste and prodigality. However one might be inclined to strike this balance, there can be no denying that these expenditures comprise a class of costs which have no limit short of the ultimate price unthinking buyers can be induced to pay. They have clearly been boosted in many cases far above even the high production costs that would have to be incurred were markets local and limited.

Translating Costs into Profits

The way high costs get translated into profits is through the pricing formulas generally employed by American industry. These are designed to produce a "satisfactory" margin of profit when the volume of business is at a specified level commonly referred to as "standard volume" — this being the volume at which overhead and other non-direct costs are averaged to determine their proper contribution to price. If volume increases above this level, the profits realized are, of course, still higher.

It is necessary, in applying any such formula, that competitive conditions permit the maintenance of the price set. The pricing practices of the drug industry with respect to certain of the ethical drugs has recently been attacked by the Department of Justice as monopolistic and illegal. For most products sold directly to consumers without a doctor's prescription, however, price fixing need not be collusive or conspiratorial. Here, market positions are determined largely by advertising and other devices for "educating" the public into use of the product; and if all the important "competitors" resort to the same practice — perhaps in the belief that they have no other choice — the costs and prices of all have to be inflated to much the same extent.

Economists have been inclined to accept all kinds of costs as legitimate. Under certain assumptions about competition and consumer understanding of the goods he buys, this implies that efficiency will be promoted and the best allocation of resources achieved. But there is apparently a wide range of circumstances that makes a travesty of such analysis. For the composite of expenditures ranging from research to advertising and promising everything new, different, and helpful serves to confuse the buyer's sense of values and to transform competition so that it cannot serve the desired end. Instead of achieving the best allocation, resources are misapplied in a proliferation of activities of little real merit.

A second basic assumption of economics is that when the consumer pays the price asked, he has made a bargain and that "the market" has then "determined" the value of the goods purchased. But the doctrine of *caveat emptor* — "let the buyer beware" — becomes unrealistic when the

(Continued on page 6)

PHOTOGRAPHIC PRODUCTS

The manufacture of photographic products has been one of the nation's fastest growing industries in the postwar period. Illustrating this growth is the fact that value added by manufacture of photographic equipment rose 164 percent between 1947 and 1957, while value added by all manufacturing increased 99 percent.

The expansion of the industry has resulted from the development of new and more intensive applications of photography by industry, commerce, and science, as well as from the swelling amateur market. The latter has been augmented by population gains, rising disposable income, and increased leisure time.

Capsule View of the Industry

Photographic equipment manufacturers produce a wide variety of articles. Sensitized films and plates are the industry's principal product. The value of films shipped in 1957 came to more than $405 million, followed by still picture equipment ($185 million), sensitized paper and cloth ($178 million), and 8 and 16 mm picture equipment ($129 million).

The industry is dominated by a few very large firms. The eight largest factories, which employed two-thirds of the industry's 64,000 persons in 1957, produced more than 70 percent of the total value of its products. The high concentration is chiefly related to the commanding position of the Eastman Kodak Company in the industry. Eastman's sales of $829 million in 1958 constituted over two-fifths of the estimated $1.9 billion in total sales.

About half the states make some type of photographic equipment; but New York, Illinois, and New Jersey together turned out more than 90 percent of the $560 million added by manufacture in 1954. The industry is roughly separated into two centers of specialization. New York and New Jersey lead in the making of films and still equipment, whereas Illinois is prominent for its amateur and professional movie equipment.

Photographic products, especially film, are sold in many types of stores; but the majority of sales are made in camera stores, groceries, and drug and jewelry stores. Amateur photographers, the largest consumers of photographic items, accounted for 36 percent of total purchases in 1958. Other major uses and their shares of total sales were commerce and industry (26 percent), motion pictures (13 percent), reproduction (14 percent), and medical purposes (11 percent).

Postwar Developments

One of the major developments in the past fourteen years has been the greatly increased popularity of miniature-film cameras, such as the 8 mm movie and 35 mm still cameras. The appeal of the smaller, more versatile miniature camera is attributed to the postwar improvements in amateur color film, its availability at a moderate price, and better print service. Miniatures have also stimulated a strong secondary demand for projectors, viewers, and accessories.

Another development has been the increasing utilization of copying equipment in business and industry. The introduction of inexpensive, simplified copiers has opened the market to include many smaller firms unable to afford a full-time photographer. In addition, micro-copying has become increasingly important as a means of minimizing the problem of storage and record-keeping.

Probably the most remarkable postwar development has been the Polaroid camera, which turns out a finished picture in one minute. The Polaroid Corporation is currently perfecting a similar process for color and is planning to market it within the next few years.

A significant innovation in recent years has been the simplification of camera settings by means of automatic control devices. In 1957, Bell and Howell brought out an 8 mm movie camera with a built-in photoelectric eye which automatically controls lens and shutter adjustment. Similar devices have been installed in both the still and movie camera lines of most of the other major companies.

Illinois — Movie Equipment Center

Illinois ranks second in production of photographic equipment. Although the industry here trails New York, its total output is nearly two-thirds of that in all other states combined. The state's value of shipments in 1958 was an estimated $120 million, a 76 percent increase over 1947.

The industry in the State consists of about 80 factories employing more than 8,000 persons, with the two largest firms — Bell and Howell and Revere Camera Company, both of Chicago — together accounting for more than half of total employment.

Illinois early became a center of production in the movie equipment field. When the movie industry was beginning to flourish at the turn of the century, a number of Chicago firms pioneered designs in equipment. One of these companies, Motiograph, Inc., of Chicago, introduced the first practical motion picture projector in 1898. Later Bell and Howell, now the largest firm in Illinois, led the way in standardizing film and equipment sizes. The company's introduction of a 35 mm film perforator, camera, projector, and continuous printer eliminated the "flicker" of early movies and provided leading exhibitors with machines unmatched in quality for that period.

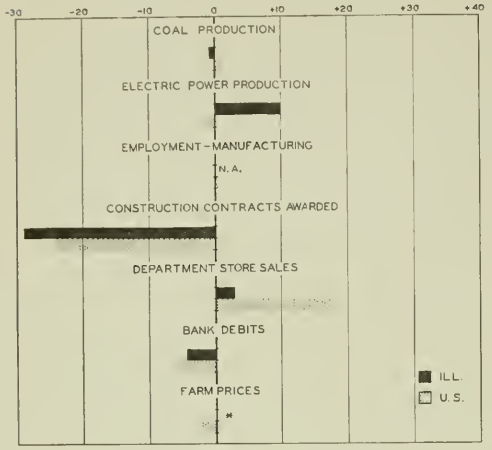
Today, Illinois remains not only the top state in production of Hollywood-type cameras and projectors but also has taken command in the amateur movie equipment field. In 1958, about half of the $130 million in shipments of 8 and 16 mm movie equipment originated here.

The future of the photographic products industry appears promising. Industry, commerce, and science are likely to find increasing uses for photography. Amateur photography will no doubt be stimulated by the predicted rise in births and the continuing advance in the average level of education — two important factors affecting the volume of picture-taking. Popularity of taking pictures should also increase with the further development of "easy-to-use" equipment.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes October, 1959, to November, 1959



* No change. n.a. Not available.

ILLINOIS BUSINESS INDEXES

Item	Nov. 1959 (1947-49 =100)	Percentage change from Oct. 1959	Percentage change from Nov. 1958
Electric power[1]	244.1	+10.0	+10.6
Coal production[2]	88.6	− 0.8	+15.4
Employment—manufacturing[3]	n.a.		
Weekly earnings—manufacturing[3]	167.7[a, b]	− 0.1	+ 4.9
Dept. store sales in Chicago[4]	123.0[c]	− 2.4	+ 3.4
Consumer prices in Chicago[5]	129.1	− 0.2	+ 1.3
Construction contracts awarded[6]	273.5	−29.1	−11.0
Bank debits[7]	198.5	− 4.3	+14.5
Farm prices[8]	76.0	0.0	− 8.4
Life insurance sales (ordinary)[9]	289.1	+ 0.7	− 2.0
Petroleum production[10]	124.9	+ 2.7	+ 7.5

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Revised series. [b] Data are for October, 1959; comparisons relate to September, 1959, and October, 1958. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Nov. 1959	Percentage change from Oct. 1959	Percentage change from Nov. 1958
	Annual rate in billion $		
Personal income[1]	384.8[a]	+ 0.7	+ 4.7
Manufacturing[1]			
Sales	350.4[a]	− 0.7	+ 6.2
Inventories	51.5[a, b]	0.0	+ 4.5
New construction activity[1]			
Private residential	22.9	− 6.2	+ 6.9
Private nonresidential	16.6	− 2.6	+ 5.5
Total public	13.7	− 20.3	−18.7
Foreign trade[1]			
Merchandise exports	17.7[c]	− 0.2	− 7.7
Merchandise imports	14.5[c]	− 13.4	+ 5.5
Excess of exports	3.3[c]	+211.2	−40.6
Consumer credit outstanding[2]			
Total credit	50.4[b]	+ 1.0	+15.9
Instalment credit	38.7[b]	+ 0.8	+16.9
Business loans[2]	30.8[b]	+ 1.2	n.a.
Cash farm income[3]	43.2[c]	+ 11.0	− 8.1
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	148[a]	+ 0.6	+ 5.0
Durable manufactures	156[a]	0.0	+ 3.3
Nondurable manufactures	144[a]	0.0	+ 6.7
Minerals	123[a]	+ 5.1	0.0
Manufacturing employment[4]			
Production workers	98	+ 0.7	+ 2.1
Factory worker earnings[4]			
Average hours worked	100	− 1.0	0.0
Average hourly earnings	168	+ 0.9	+ 2.8
Average weekly earnings	168	− 0.1	+ 2.8
Construction contracts awarded[5]	239	− 24.3	− 8.5
Department store sales[2]	145[a]	+ 0.7	+ 5.8
Consumer price index[4]	126	+ 0.1	+ 1.4
Wholesale prices[4]			
All commodities	119	− 0.2	− 0.3
Farm products	85	− 1.3	− 7.3
Foods	105	− 1.4	− 4.2
Other	128	+ 0.1	+ 1.3
Farm prices[3]			
Received by farmers	85	− 2.3	− 6.6
Paid by farmers	119	+ 0.8	+ 0.8
Parity ratio	77[d]	− 2.5	− 8.3

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for October, 1959; comparisons relate to September, 1959, and October, 1958. [d] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1959 Dec. 26	Dec. 19	Dec. 12	Dec. 5	Nov. 28	1958 Dec. 27
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,370	1,564	1,529	1,510	1,600	1,305
Electric power by utilities	mil. of kw-hr.	13,400	14,150	14,167	13,907	13,173	12,379
Motor vehicles (Wards)	number in thous.	119	175	99	67	56	120
Petroleum (daily avg.)	thous. bbl.	7,109	7,139	7,123	7,027	6,969	7,129
Steel	1947-49 = 100	153	158	159	154	147	107
Freight carloadings	thous. of cars	469	615	642	650	574	432
Department store sales	1947-49 = 100	246	318	298	249	176	205
Commodity prices, wholesale:							
All commodities	1947-49 = 100	118.8	118.9	119.0	118.9	119.0	119.2[a]
Other than farm products and foods	1947-49 = 100	128.5	128.5	128.5	128.6	128.7	127.2[a]
22 commodities	1947-49 = 100	82.9	83.8	84.6	84.7	84.9	86.1
Finance:							
Business loans	mil. of dol.	30,480	30,423	30,034	30,015	29,901	n.a.
Failures, industrial and commercial	number	195	285	248	261	268	185

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for December, 1958. n.a. Not available.

RECENT ECONOMIC CHANGES

Auto Output

Passenger car production in the United States rose sharply in 1959 to slightly under 5.6 million units, an increase of 32 percent over 1958 output of only 4.2 million cars. However, 1959 production, which was somewhat curtailed by the steel strike, was still below the levels achieved in 1957, 1956, and 1955, when assemblies totaled 6.1 million, 5.8 million, and 7.9 million, respectively.

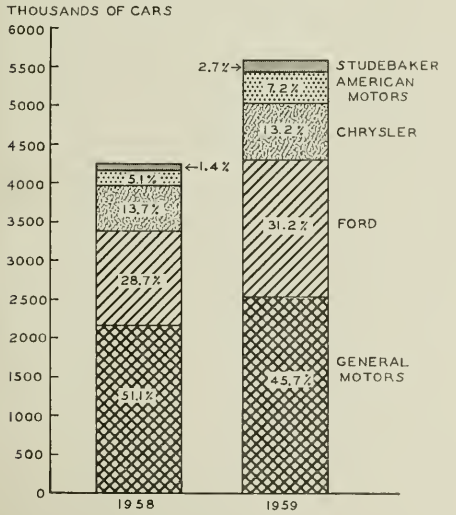
All companies shared in the increase in total car output during the year. However, there were some notable changes in the relative output positions both among companies and among various makes. Ford Motor Company, American Motors Corporation, and Studebaker-Packard Corporation all increased their proportion of total car assemblies during the year. General Motors' share of industry output dropped from 51.1 percent in 1958 to 45.7 percent, and Chrysler Corporation's share slipped to 13.2 percent (see chart). Among individual makes, Ford overtook Chevrolet during the year to become number one in assemblies with close to 1.5 million units. Chevrolet was second with about 1.4 million, while Rambler jumped from seventh to third with over 400,000 cars. Output of all makes except Buick rose during the year with the biggest percentage increases being recorded by Studebaker's Lark, 179 percent; Rambler, 83 percent; Pontiac, 74 percent; and Dodge, including the new Dart, 70 percent.

Construction Outlays

According to revised estimates by the Department of Commerce, outlays for new construction in 1959 reached a record high of over $54.3 billion. Despite the effects of the steel strike in the last months of the year, construction outlays rose 11 percent above the previous peak of $48.9 billion set in 1958. The new estimate for 1959 is slightly larger than the one the agency had reported earlier. Building expenditures for 1960 are expected to continue upward but at a slower rate than in the past year. The department estimates that such expenditures will be about $55.3 billion this year.

Almost all of the advance in the value of new construction put in place during 1959 was accounted for by an increase of 24 percent in spending for private residential building. This component advanced from $18.0 billion in 1958 to over $22.4 billion last year. As a result, total 1959 private spending on construction advanced to $38.3 billion from $33.5 billion in the previous year. Public construction during the year amounted to $16.0 billion, compared with $15.4 billion in 1958.

AUTO PRODUCTION



Source: *Wall Street Journal*, January 5, 1960.

Machine Tools

Machine tool orders in November declined to $53.7 million, down 20 percent from $66.6 million in October. The relatively high October figure resulted from a heavy influx of orders from domestic and foreign auto industries which pushed incoming business to a 31-month high. Although slightly below the 1959 monthly average of $54.5 million, November orders were well above the $29.1 million for the corresponding 1958 month.

Despite the substantial recovery in the machine tool industry during the year, orders in 1959 were still considerably below the average of recent years. In the major segment of the industry, metal cutting tools, orders for the first eleven months of 1959 totaled $464.1 million, a gain of 65 percent over the $281 million in orders for all of 1958, but well under the $745 million average for the last ten years. The estimated yearly capacity for cutting tools in the industry is about $800-$850 million.

Shipments of all machine tools also declined in November, from $51.5 million in the previous month to $44.1 million. As a result, shipments for the entire year are expected to fall below the 1958 total of $411 million, making 1959 the worst year for shipments since 1950.

United States Balance of Payments

The deficit in United States dollar transactions with the rest of the world declined in the third quarter of 1959, reversing the upward trend of the past two years. The balance of payments deficit in the third period was at a seasonally adjusted annual rate of about $4.2 billion, compared with $4.5 billion in the preceding quarter. The United States has not had a surplus of receipts over payments since the third quarter of 1957 when there was a surplus at an annual rate of $1.4 billion.

As a result of the continuing deficits of the United States in its international transactions, foreign nations and individuals have been able to build up substantial dollar balances in this country. In 1958 foreign governments converted $2.3 billion of their holdings into gold. Through the first three quarters of 1959 the outflow of gold from the United States has been only about $1 billion.

Despite the third-period improvement in the balance of payments, the deficit for 1959 is expected to pass $4 billion, compared with $3.4 billion in 1958.

Individuals' Savings

The Securities and Exchange Commission has reported that financial assets of individuals in the United States increased at a record rate in the first nine months of 1959. The expansion of assets amounted to $24.9 billion, surpassing the previous high of $20.7 billion set in the first three quarters of 1957. These accumulations, how-

ever, were partly offset by a sharp rise in individuals' indebtedness which increased $12.5 billion, mostly as the result of an $8.9 billion expansion in mortgage debt. Thus, the net increase in financial savings during the period was $12.4 billion, about 2 percent below the corresponding 1958 period and 10 percent less than in 1957 when savings reached a postwar high.

The commission report also noted that there was considerable change in the composition of individuals' savings during the year. Through September of 1959 individuals saved $8.4 billion in the form of securities, compared with $600 million in all of 1958. Most of this change was attributable to substantial acquisitions of United States government marketable issues, which amounted to $6.5 billion in the first nine months of 1959, as against liquidations of $3.6 billion in the same period in 1958.

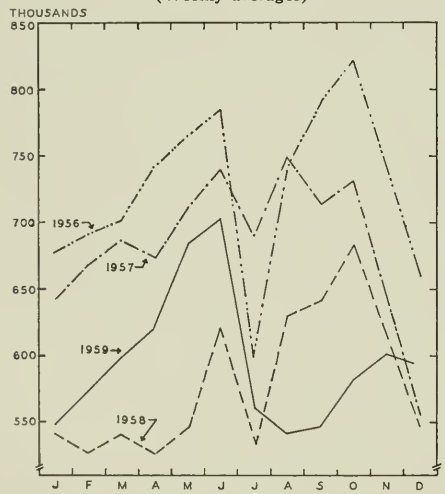
Another important shift was the substantial decline in additions to bank deposits and currency holdings. In the January-September period last year, assets in this form increased only $3.1 billion, compared with a $6.8 billion rise in the comparable 1958 period. On the other hand, savings in private insurance and pension reserves, investment company shares, and savings and loan association shares continued to follow the fairly steady growth of recent years.

Freight Carloadings

Freight loadings in December averaged about 594,000 cars per week, down slightly from November but the highest December total since 1956. As indicated in the accompanying chart, loadings ran well above 1958 throughout the first half of last year but dropped sharply in late summer because of the steel strike. The prolonged work stoppage in steel continued to have a depressing effect upon carloadings through the third quarter. The recovery in the final three months of the year, however, enabled loadings in 1959 to climb to 31.0 billion cars, about 2.5 percent, or 764,000 cars, ahead of 1958.

In spite of the over-all advance in carloadings in 1959, shipments in most product classes fell below 1958. The largest declines were in shipments of merchandise in less-than-carload lots, down 9.3 percent; ore, down 5.7 percent; and grain and grain products, down 4.3 percent. Coal and livestock loadings were also below year-ago levels. All of these reductions, however, were more than offset by increases of 19.9 percent in coke shipments, 10.2 percent in forest products, and 6.7 percent in miscellaneous products. The latter classification is the most significant since it includes, among other things, all manufactured goods and accounts for half of all freight loaded.

FREIGHT LOADINGS
(Weekly averages)



Source: Association of American Railroads.

Farm Prices

The Agriculture Department's index of prices received by farmers continued to fall during the month ended December 15. The latest decline lowered the index 2 points to 228 percent of the 1910-14 average, the lowest level in more than nineteen years. Since December 15, 1958, the index has fallen 16 points, or 7 percent. The department also reported that the average level of the index during the past year was 240, compared with an average of 250 for 1958.

Reduced prices for meat animals, reflecting continued heavy marketings, were the main element in the decline of the farm price index during the year. The index of prices for livestock and products fell 12 percent in the last twelve months from 270 in December, 1958, to 238 last month. The all-crops index, on the other hand, showed a 2 percent increase for the same period.

The index of prices paid by farmers remained unchanged during December at 297. This index was much more stable in 1959, rising only 2 points, than in any other year since 1940. However, the continuing decline in prices received by farmers forced the parity ratio down to 77 in December, 1959, from 83 in the same month of 1958.

Progress or Profiteering?

(Continued from page 2)

consumer lacks the ability to investigate and test. Then his very suspicion helps create the result it is supposed to prevent. He fears lack of quality in items offered below the prices advertised by the large, established concerns. Thus, competition on the part of producers without the means to incur heavy advertising expense is precluded.

Despite all the representations of our "free enterprise" doctrine, we have never had and can never have an economy in which practices detrimental to the consumer are left unrestricted. One kind of restraint that has not always led to such a hubbub is illustrated by the recent action of a high government official who courageously, if not altogether judiciously, banned the sale of cranberries contaminated with a harmful drug. Another lies in the application of antitrust laws to prevent profiteering from undermining the consumer's welfare by way of undue taxes on his pocketbook. Business can retain the right to any kind of practice only as it is recognized to be a right. The line between the permissible and the prohibited is necessarily hazy, but some activities previously regarded as innocuous may move across the line when carried to an extreme. Congress has decided to reconsider some aspects of current business practice. The problem is quantitative as well as qualitative and goes far beyond the drug industry. Perhaps economists should re-examine some of their assumptions in the light of the facts developed.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Revised FRB Production Index

The Federal Reserve Board has recently revised its index of industrial production. The last major revision was in 1953. In the revision the benchmarks, weights, and comparison base data were brought up to date in order to provide improved physical volume measures for analyzing economic developments in the 1960's. A detailed presentation of the revision back to 1947 may be found in the December *Federal Reserve Bulletin*.

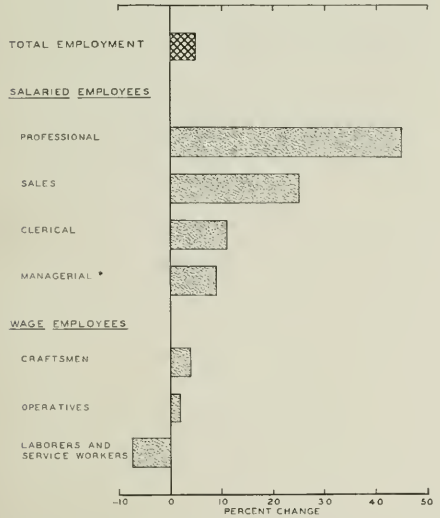
According to the new index, total industrial production hit an all-time high of 166 percent of the 1947-49 average in May and June of 1959. This compared with the previously published level of 153 percent in May and the peak of 155 percent in June for the old index. Overall, the revised index shows an average growth rate of 4.1 percent a year since 1947 in industrial output, compared with 3.7 percent for the old index.

The new index has been broadened to include production by electric and gas utilities. This accounts for about one-third of the upward shift in the new series. The remaining two-thirds of the upward revision is a result of the adjustment of the index on the basis of new information gathered from the latest business census on how much is being produced and what products have increased or fallen in importance.

Occupational Changes in Manufacturing

The December *Survey of Current Business* reports that during the postwar period there has been a marked shift in the occupational composition of employees of manufacturing industries toward salaried positions. Between 1952 and 1957, when total employment in manufacturing industries increased 5 percent, employment of professional and technical workers in manufacturing increased about 45 percent. Higher-than-average increases were also found in the other categories of salaried workers — sales, clerical, and managerial personnel (see chart). At the same time, there was a significant shift within the wage category toward more highly skilled occupations.

OCCUPATIONAL CHANGES IN MANUFACTURING, 1952 to 1957



* Also includes self-employed.
Source: U. S. Department of Commerce, *Survey of Current Business*, December, 1959, p. 21.

The rapid increase in employment of salaried workers was due mainly to expanded research and development activities and to technological changes in production processes in many industries. These changes have brought about more efficient production methods and have resulted in a greater need for professional and supervisory personnel.

Population Growth

Estimates released recently by the Bureau of the Census indicate that the total population of the United States as of July 1, 1959, was 176 million. This represents an increase of nearly 26 million, or 17 percent, since the 1950 census.

Among the nation's four major regions, as might be expected, the West had the highest rate of population growth. Between 1950 and 1959, the population of the West increased from nearly 20 million to 26 million, or 32 percent. The North Central region and the South experienced higher numerical gains but much lower rates of increase than the West. The population of the North Central region grew from 44 million to 52 million, or about 17 percent, and the South's population rose by 16 percent from 47 million to 55 million during the period. The lowest numerical gain and rate of increase was experienced in the Northeast region, where the population expanded from 39 million in 1950 to 44 million in 1959, an increase of 11 percent.

Nevada, Florida, and Arizona in that order led all other states in the rate of population growth between 1950 and 1959. The population in each of these states increased more than 60 percent. On the other hand, California, with a rate of 38 percent, had the largest numerical increase in population, growing from 10.6 million in 1950 to 14.6 million in 1959.

Illiteracy in the United States

The Census Bureau reported that the rate of illiteracy in the United States among persons 14 years of age and older had fallen to 3.2 percent in 1950. The number of illiterate persons in the population was about 3.6 million at that time. Later surveys which are not yet complete indicate that by 1959 the national illiteracy rate had fallen to about 2.2 percent. In 1900 the rate was 11.2 percent.

Data on illiteracy by states are not yet available for the period since 1950. In that year, however, the percentage of persons who were unable to read or write either in English or in any other language was below 3 percent in about two-thirds of the states and below 10 percent in all of them. Rates were highest in the South, particularly in Louisiana, South Carolina, Mississippi, Georgia, and Alabama, and in New Mexico and Arizona in the West. All of these states had rates over 6 percent. However, the 1950 rates in these states, as in all others, were well below the levels of illiteracy prevailing in 1900.

COLLEGE-AGE YOUTH—HERE THEY COME!

JOSEPH S. BEGANDO and EUNICE C. PARKER

Public understanding of the role and significance of higher education was never more necessary than it is today — as the decade of the 1960's begins. Perhaps no previous ten-year period in the history of higher education in the United States has begun with such unparalleled challenges. It seems certain that these challenges will be met only if the people of the nation understand and support higher education as they have elementary and secondary education in the decade of the 1950's.

The decade now begun is one in which there will be unprecedented demand for higher education, in both the quantitative and qualitative aspects. Apparently the institutions of higher learning will be expected to provide classrooms and laboratories for almost double the number of students presently enrolled. At the same time they will be expected to perform at an increased quality level. However, these expectations will not materialize merely because college and university presidents dutifully point out the needs of their respective institutions. An explosion in public understanding and support of the same magnitude as the explosions in the college-age population and in the frontiers of knowledge will be necessary if the challenges of the 1960's are to be turned into the accomplishments of the 1960's. This brief article has been prepared in the hope that it will serve as a stimulus to the interested citizen to study the problem.

The National Scene

Recent and reliable estimates confirm former predictions that colleges and universities will be expected to provide quality programs of higher education for more than 6 million students as the decade of the 1960's comes to an end. The situation is summed up by Philip H. Coombs in a chapter on "Financing Higher Education."[1] He points out that the United States Office of Education estimates that college and university enrollments may rise from the 1958-59 level of 3.5 million to approximately 6.4 million by 1970.

The dramatic increase in the next ten years is accounted for by the sharp rise in births since 1943 and the continuing increase in the proportion of young people going to college. Annual births averaged 2.4 million in the 1930's but jumped to 3.2 million in the period 1943-49. Indications are that in 1959 there were approximately 4.3 million births. In 1959, enrollments in institutions of higher learning were equal to 39 percent of the college age population (18 to 21 year olds), and conservative estimates are that the ratio will reach at least 44 percent by 1970. Some estimates are as high as 50 percent. A recent cross-section survey of parents' expectations with regard to their children going to college showed that parents expect to send 69 percent of children under eighteen years of age to college. The percentage was about the same for girls as for boys.[2]

These facts give substance to the plea for public understanding of the magnitude of the task facing the colleges and universities of the nation. Only prompt and unprecedented action can prevent a condition in which there is a limitation of higher educational opportunity.

[1] Philip H. Coombs, "An Economist's Overview of Higher Education," in Dexter M. Keezer, ed., *Financing Higher Education 1960-70* (New York: McGraw-Hill, 1959), p. 15.

[2] See foreword to *Parents' College Plans Study*, prepared for The Education Program of the Ford Foundation, June, 1959, by Elmo Roper and Associates.

The Illinois Scene

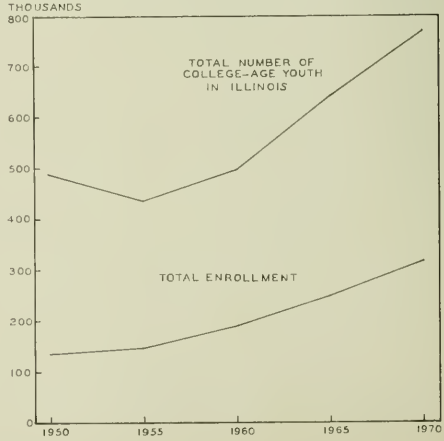
The challenge of the decade of the 1960's seems to be threefold for higher education in Illinois: (1) to educate youth to take their place in the complex world of atomic power and satellites and the even more complicated interaction of political, social, and economic groups; (2) to add to present knowledge through increased research in all fundamental fields of learning; and (3) to serve agriculture, industry, commerce, and government in increasingly significant ways.

The Illinois scene is part and parcel of the statistics which add up to the national problem in higher education outlined above. The statistics for Illinois are comparable to those for the nation as a whole, and the years immediately ahead will bring before the citizens of Illinois climactic issues with respect to higher education in their State.

There will be unprecedented numbers of Illinois youth seeking admission to colleges and universities within the State. There were 438,200 Illinois youths in the 18 to 21 age bracket in 1955; there will be 771,000 in 1970. (See Chart 1.) These are not just predictions. They are careful estimates calculated from actual numbers of children, now mostly in the elementary and junior high schools of the State. In Illinois, the birth rate began to rise abruptly in 1941. In 1940, for example, births in Illinois totaled 128,308, and in 1941 had increased to 139,666. By 1951 this figure had risen to 202,845 — and boys and girls born in that year will be of college age in 1969. Knowing the present public school enrollments, interested parents and citizens should not permit a postponement of expansion to the point where needed buildings are still being considered or under construction when the present record numbers of pre-high school pupils seek admission to the colleges and universities of the State.

Projected enrollment figures for all Illinois institutions of higher learning indicate that from 149,140 students in 1955, enrollments will rise to 313,000 in 1970. (See Chart 1.) These projections assume that needed facilities

CHART 1. ENROLLMENT IN ALL ILLINOIS INSTITUTIONS OF HIGHER EDUCATION



will be available — an assumption which may or may not be valid, depending upon how soon the need for action is recognized.

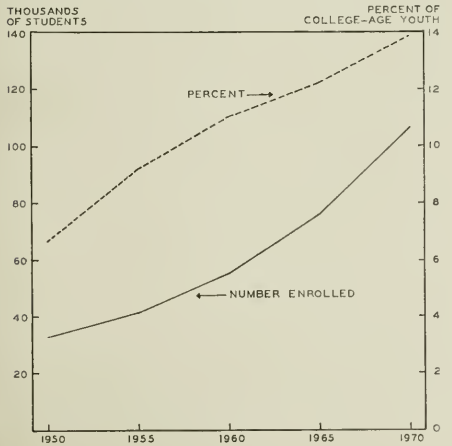
The Six State-Owned Universities

The six state universities (University of Illinois, Southern Illinois University, Northern Illinois University, Illinois State Normal University, Western Illinois University, and Eastern Illinois University) undoubtedly will be expected to continue to play a major role in providing higher education for the qualified youth of Illinois. It has been estimated that from a combined enrollment of 40,164 in 1955, these six institutions must prepare for more than 100,000 students in 1970. (See Chart 2.) With these universities now accommodating near-capacity enrollments, the task ahead poses a challenge to all citizens of Illinois.

In Illinois, as well as nationally, an increasing proportion of young people are going to college. As an index of this proportion, as it relates directly to the six state-owned universities, the ratio of total enrollments at the six universities to the total population of college age youths (18 to 21 year olds) in Illinois has been calculated. In 1950 this ratio was 6.7 percent. It rose to 9.2 percent in 1955, and is estimated to be 13.9 percent in 1970. (See Chart 2.) Parents have widely recognized the value of advanced training, both to the individual and to the society, and have indicated in a variety of ways that they want their children to have the advantage of a college education.

Yet there is an additional factor which may need to be taken into account. In 1958 there were 39,781 Illinois youths who attended institutions of higher education, both public and private, outside the State, while 28,370 young people came to Illinois for higher educational service from other states. Consequently there was a net student migration from Illinois of 11,411. As enrollments rise throughout the nation there may be a trend on the part of public institutions to put greater restrictions on admission of out-of-state students. In 1958 there were 14,870 Illinois youths who attended public institutions of higher education outside the State, while only 4,516 students from other states were enrolled in public institutions of higher education in Illinois. As admission restrictions increase it is logical to assume that more of the young people of Illinois will be forced to seek admittance to the six state universities within Illinois, adding to the enrollment pressures.

CHART 2. ENROLLMENT IN THE SIX STATE UNIVERSITIES IN ILLINOIS



The Opportunity for the Illinois Citizen

One of the most pressing problems of the moment in Illinois is how to get on with a much-needed building program at the six state institutions of higher learning. It is clearly evident from the enrollment projections cited above that the six state universities are not in a position to accommodate the numbers of qualified young people of Illinois who will soon seek admission. Without increased space for new enrollments, restrictions on the numbers to be admitted will be mandatory. The presidents of these six state universities recently expressed ". . . grave concern over the accumulated and future building needs of the several institutions. . . ."

The pertinent question today seems not to be whether more buildings should be built, but how many? How can they be financed? And on what schedule must they be completed if qualified students are to continue their education beyond high school? The Universities Bond Issue to be voted on at the November 8, 1960, election is one approach to the need for additional educational buildings. This method has been used recently by several other states and should be given serious study by the voters of Illinois.

In Illinois, as elsewhere throughout the nation, both publicly supported and privately supported institutions are involved — the challenge of the decade has been issued to all. Interested citizens will most certainly be called upon to relate higher education generally to economic, political, and social growth. Many parents with growing families are aware of the need in personal terms, and many businessmen and farmers recognize that demands for managerial and research talent will continue to increase. But the need often seems distant and tends not to be translated into demands for action now. The situation has been well stated in a recent report:

> . . . Perhaps the greatest problem facing American education today is the widely held view that all we require are a few more teachers, a few more buildings, a little more money. Such an approach will be disastrous. We are moving into the most demanding era in our history. An educational system grudgingly and tardily patched to meet the needs of the moment will be perpetually out of date. We must build for the future in education as daringly and aggressively as we have built other aspects of our national life in the past.[3]

Located in an economically promising region, recently enhanced by the rapid development of transportation, both by air and by the St. Lawrence Seaway, Illinois has a unique and important role in the economic life of the nation. This ensures that Illinois will be economically able to continue to maintain a first-rate system of higher education, and to meet the future requirements created by the increase in student population. Illinois as a state ranks among the highest in per capita personal income; it ranks among the lowest in state and local governmental revenues in relation to per capita personal income. Apparently the citizens of Illinois are in a position to make certain that the state-supported institutions will have the facilities needed to educate the youth of the State — its most valuable resource.

[3] The "Rockefeller Report" on Education: *The Pursuit of Excellence, Education and the Future of America*, Panel Report V (Garden City, N. Y.: Doubleday, 1958), p. 33.

LOCAL ILLINOIS DEVELOPMENTS

All major indexes of Illinois business activity, with the exception of electric power output, petroleum production, and life insurance sales, turned down in November. The largest decline was in construction contracts awarded, which dropped 29 percent. Decreases of 4 percent and 2 percent, respectively, were experienced in bank debits and seasonally adjusted department store sales in Chicago. Most of the state indexes were above year-ago figures, but construction contracts awarded, farm prices, and life insurance sales were down.

Mineral Production in 1959

According to preliminary estimates of the Illinois State Geological Survey, total value of mineral production in Illinois amounted to $594 million in 1959. This was the first time in four years that Illinois mineral production has dropped below the $600 million level and the third consecutive year in which values have fallen.

The two leading minerals, oil and coal, contributed nearly 71 percent — about $236 million and $183 million, respectively — of the state total (see chart). Oil drilling in Illinois fell off about 12 percent in 1959; however, total output remained relatively high, declining only 2.5 percent from that of 1958, owing mainly to the increased use of hydraulic fracturing and water flooding methods of recovery. Secondary methods were used for over 50 percent of the total petroleum recovered during 1959.

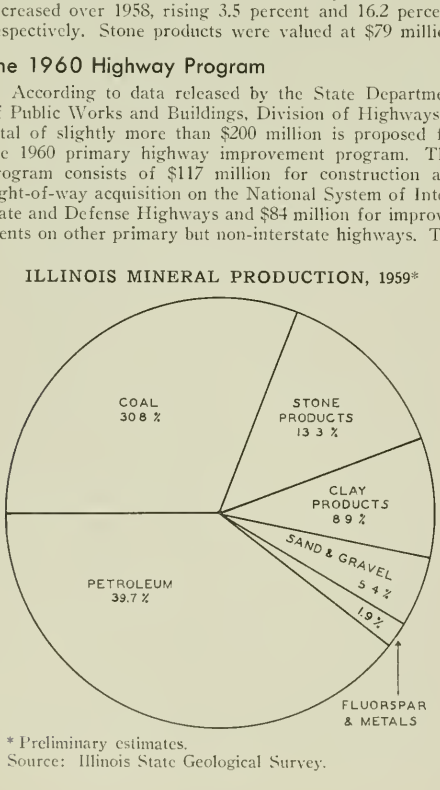
Coal and stone products were the only minerals that increased over 1958, rising 3.5 percent and 16.2 percent, respectively. Stone products were valued at $79 million.

The 1960 Highway Program

According to data released by the State Department of Public Works and Buildings, Division of Highways, a total of slightly more than $200 million is proposed for the 1960 primary highway improvement program. This program consists of $117 million for construction and right-of-way acquisition on the National System of Interstate and Defense Highways and $84 million for improvements on other primary but non-interstate highways. The federal government is supplying $114 million for these improvements, state and local sources $52 million, and the Cook County Expressway bond issue $35 million.

The total estimated cost of projects listed for the ten Illinois districts for 1960 amounts to $286 million, or $85 million more than the funds available. Projects in District Ten (Cook County) have an estimated cost of $114 million, with construction on Interstate 94 and 90 accounting for approximately 75 percent of this amount. About $19 million of construction is planned on Interstate 70 in the southern part of the State. Another major highway construction project is located in the northern part of the State, where an estimated $15 million will be spent on Interstate 80.

ILLINOIS MINERAL PRODUCTION, 1959*



* Preliminary estimates.
Source: Illinois State Geological Survey.

Salaries in Illinois

The December *Illinois Labor Bulletin* presents estimates of salaries of selected clerical, professional, and maintenance occupations in Illinois based upon information obtained from the 1959 Illinois Salary Survey. The Illinois State Department of Personnel conducted the survey which covered 36 occupations in a wide range of private industries. The industries surveyed had nearly 2,500 employers and 27,000 employees.

The findings show that of the nineteen clerical occupations surveyed the average monthly salaries ranged from $265 for first grade clerks to $600 for commodity buyers. Among the five professional occupations, chemists and mechanical engineers had the highest average monthly salaries, $627 in each case, while engineering aides received only $345 monthly. The average monthly salaries of the twelve maintenance occupations showed the widest variation of the three categories, ranging from a low of $216 for domestic workers to a high of $561 for maintenance electrician foremen.

The comparison of salaries between the six sections of Illinois show, as might be expected, that salaries in the Northeast area were generally higher than in other areas of the State, with 22 of the 29 occupations surveyed having salaries equal to or greater than the average for the State. The lowest level of salaries in Illinois was in the Southeast area, where salaries in most occupations were about 25 percent below the average for the State.

Auto and Home Insurance Premiums Cut

Governor William G. Stratton recently announced a cut in automobile insurance rates and premiums of home owner insurance policies held by Illinois residents. On December 30, 1959, automobile insurance in Illinois was reduced in accordance with lower schedules filed by the National Bureau of Casualty Underwriters. It is estimated that this cut in the cost of auto insurance will save motorists of the State $4.7 million in 1960. The reductions were the first since 1945 and were attributed to a decline in the number of claims and the cost of each claim in 1958. On a state-wide coverage basis, the new rates show a decrease of 5.4 percent in collision rates and a 3.3 percent drop in liability and property damage rates.

The Illinois Inspection Bureau and the Cook County Inspection Bureau made applications for the reduction in the premiums of home owner insurance policies for their respective members, which were later approved by the state insurance department. The reduced premiums were estimated to be between 20 percent and 30 percent below present rates. The lower premiums become effective January 25, 1960.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1959

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$19,135[a]	1,188,911[a]	$592,565[a]		$17,351[a]	$17,935[a]
Percentage change from	Oct., 1959	−52.1	+2.1	+6.8	+3	−4.3	+0.5
	Nov., 1958	−42.6	+8.1	+9.4	+5	+14.5	+9.9
NORTHERN ILLINOIS							
Chicago		$13,813	876,499	$432,950		$15,900	$15,816
Percentage change from	Oct., 1959	−56.2	+3.2	+7.4	+3	−4.0	+0.6
	Nov., 1958	−44.7	+4.7	+9.4	+4	+15.2	+11.3
Aurora		$ 357	n.a.	$ 9,367		$ 78	$ 155
Percentage change from	Oct., 1959	−65.2		+0.1	+1	−8.9	+4.0
	Nov., 1958	−69.2		+12.3	+3	+10.4	+7.0
Elgin		$ 167	n.a.	$ 6,508		$ 46	$ 124
Percentage change from	Oct., 1959	−24.1		+3.8	n.a.	−13.7	+4.9
	Nov., 1958	−32.4		+12.6		+1.0	−6.8
Joliet		$ 260	n.a.	$11,045		$ 84	$ 107
Percentage change from	Oct., 1959	−66.0		+5.2	+8	−14.0	+4.3
	Nov., 1958	−51.6		+11.5	+12	+0.5	−2.5
Kankakee		$ 73	n.a.	$ 5,057		n.a.	$ 76
Percentage change from	Oct., 1959	−55.8		−7.0	n.a.		+22.5
	Nov., 1958	−77.3		+0.3			+42.4
Rock Island-Moline		$ 551	27,653	$11,894		$ 121[b]	$ 167
Percentage change from	Oct., 1959	−41.9	−3.5	−1.3	n.a.	−6.3	+7.4
	Nov., 1958	−24.7	+12.9	+4.9		+10.5	+1.4
Rockford		$ 959	50,764[c]	$19,273		$ 197	$ 231
Percentage change from	Oct., 1959	−4.5	+1.2	+6.0	0[c]	−9.3	+2.2
	Nov., 1958	−18.5	+11.1	+13.7	+2[c]	+13.9	+4.3
CENTRAL ILLINOIS							
Bloomington		$ 80	9,580	$ 5,961		$ 73	$ 87
Percentage change from	Oct., 1959	−77.8	+6.5	+9.4	n.a.	+4.1	−18.1
	Nov., 1958	−38.5	+17.5	+9.4		+11.7	−16.1
Champaign-Urbana		$ 273	14,420	$ 9,486		$ 85	$ 117
Percentage change from	Oct., 1959	−54.8	+1.9	+15.6	n.a.	−9.4	−13.5
	Nov., 1958	+4.6	+10.2	+13.7		+10.2	−3.0
Danville		$ 130	13,457	$ 6,735		$ 47	$ 68
Percentage change from	Oct., 1959	−34.0	−4.0	+10.2	−3	−16.0	−5.6
	Nov., 1958	−43.5	+1.6	+15.4	−4	−4.4	+9.7
Decatur		$ 352	35,474	$12,159		$ 122	$ 115
Percentage change from	Oct., 1959	−46.4	−0.6	+6.6	−1[c]	−14.7	−11.5
	Nov., 1958	−19.1	+14.9	+7.4	−2[c]	+19.4	−4.0
Galesburg		$ 176	9,116	$ 4,968		n.a.	$ 48
Percentage change from	Oct., 1959	−44.0	+2.8	+6.1	n.a.		−7.6
	Nov., 1958	−82.7	+5.5	+8.4			−17.7
Peoria		$ 266	50,370[c]	$18,555		$ 223	$ 312
Percentage change from	Oct., 1959	−49.0	−3.7	+6.5	+1	−7.1	−2.0
	Nov., 1958	−62.3	+33.4	+12.2	+7	+4.7	+7.2
Quincy		$ 607	10,949	$ 5,477		$ 56	$ 72
Percentage change from	Oct., 1959	+177.2	−1.0	+10.7	+9	+4.8	−6.8
	Nov., 1958	+216.1	+13.6	+9.1	−2	+22.2	+0.2
Springfield		$ 390	38,906[c]	$14,438		$ 135	$ 280
Percentage change from	Oct., 1959	−60.3	−1.4	+2.3	+4[c]	−3.7	+10.9
	Nov., 1958	−32.8	+5.2	+8.3	+7[c]	−2.8	−2.2
SOUTHERN ILLINOIS							
East St. Louis		$ 146	15,206	$ 9,204		$ 143	$ 71
Percentage change from	Oct., 1959	+111.6	−5.1	+6.8	n.a.	−0.2	−9.6
	Nov., 1958	+534.8	+24.5	+7.1		+2.2	−2.5
Alton		$ 450	25,294	$ 4,912		$ 43	$ 37
Percentage change from	Oct., 1959	+121.7	+0.1	+2.5	n.a.	−6.7	−8.1
	Nov., 1958	−11.4	+102.9	+4.0		+13.4	−2.3
Belleville		$ 85	11,223	$ 4,578		n.a.	$ 51
Percentage change from	Oct., 1959	−43.7	+5.0	−0.4	n.a.		−1.9
	Nov., 1958	−7.6	+19.0	+1.0			+14.1

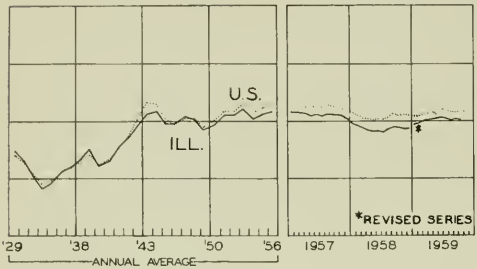
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for October, 1959. Comparisons relate to September, 1959, and October, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending November 13, 1959, and November 14, 1958.

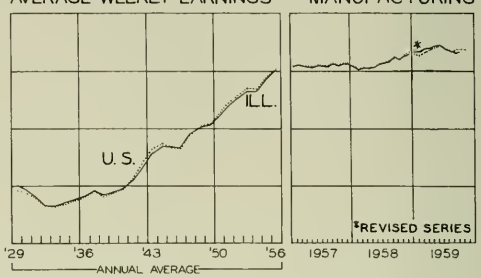
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

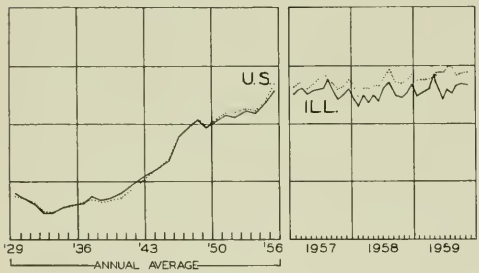
EMPLOYMENT MANUFACTURING



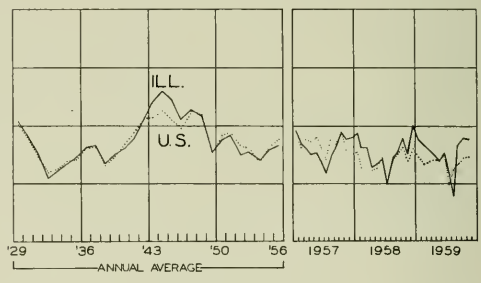
AVERAGE WEEKLY EARNINGS — MANUFACTURING



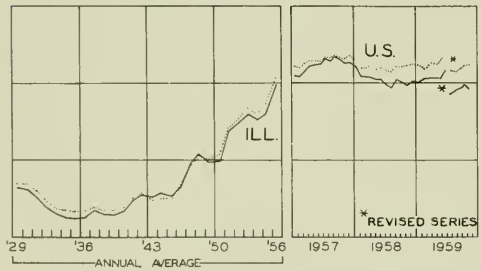
DEPARTMENT STORE SALES



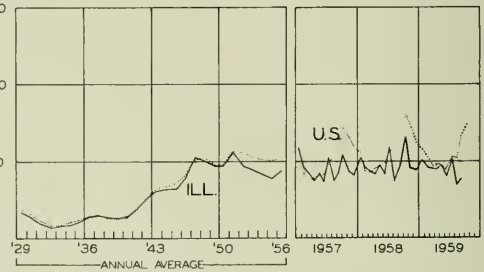
COAL PRODUCTION



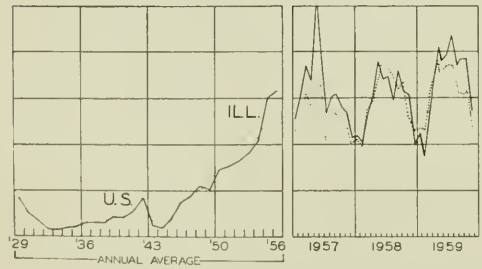
BUSINESS LOANS



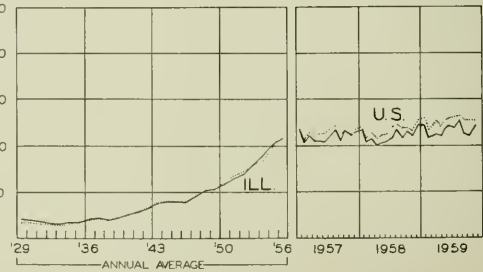
CASH FARM INCOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN JANUARY

Business activity continued to expand in January. The index of industrial production exceeded the previous high of 166 (1947-49 = 100) set last May and June, rising 4 points to 169. Steel output continued at about 95 percent of capacity, and auto production jumped from 495,000 to 689,000 units as the pinch of steel shortages ended.

The seasonally adjusted index of department store sales dropped 2 points to 147 (1947-49 = 100), but this was 9 points above January a year ago. Wholesale prices of commodities showed little change as compared with January and December, 1959, but stock prices declined throughout the month, the Dow-Jones index of industrials falling from a high close to 685 near the first of the month to a low near 620 in the last week. Money market rates also tended to decline during the latter part of January after reaching a new high earlier.

Auto Sales Disappointing

Although domestic sales of new American-made passenger cars in January were up 26 percent from December and 11 percent from January, 1959, they were below industry expectations. Earlier forecasts anticipated domestic sales of 6½ million American-made cars in 1960, a level requiring average monthly retail deliveries considerably above the estimated 455,000 reported for January. Short supplies of cars as a result of the earlier steel strike had curtailed sales in November and December, and it was expected that January sales would get a strong boost from the carryover of demand from these months. Stocks in dealers' hands were plentiful in January, reaching the 800,000 level, or about a 44-day supply, by the end of the month. Some industry officials were revising downward by 5 to 15 percent the first-quarter production estimate of 2,250,000 cars.

Construction Improves

The actual value of new construction put in place declined $326 million in January to $3.7 billion, but on a seasonally adjusted basis activity increased 6 percent. Private spending dropped from $3.1 billion to $2.7 billion, but this decline was less than the normal seasonal contraction. All of the components of private construction, except farm, showed increases after seasonal adjustment. In its rebound from the steel strike, industrial building registered a 5 percent gain even before adjustment. Nonfarm residential building, the largest component, advanced 5 percent after allowance for seasonal influences.

Public expenditures amounted to $1.0 billion, reflecting a 1 percent decline from December in actual value but a gain of 11 percent in the adjusted figure. Highway construction accounted for most of the latter increase. Compared with January a year ago, all types of public construction showed declines after allowing for differences in the number of working days, but each of the private construction components registered an increase.

Gain in Inventories and Sales

After seasonal adjustment, business inventories increased $800 million in book value during December, the largest monthly advance since last June. It brought the adjusted total to $89.2 billion. Most of the expansion occurred in the durable goods manufacturing industries, which added $700 million, raising all manufacturers' stocks to $52.3 billion. The adjusted value of wholesale and retail inventories changed very little, although the actual value of stocks in both of these sectors showed the usual sharp reduction brought about by Christmas sales.

Business sales rose by $2.0 billion in December to $61.1 billion, after allowance for seasonal factors. Of this increase the durable goods manufacturing industries accounted for $1.5 billion, about half of which went into inventory rebuilding. Adjusted sales of all manufacturing firms rose 6 percent to $30.8 billion. Sales of wholesalers amounted to $12.8 billion, a gain of 4 percent; but retail sales dropped 2 percent to an adjusted $17.5 billion, largely as a result of the shortage of new car deliveries.

Consumer Debt Continues to Rise

Consumers added greatly to their short- and intermediate-term debt in December, 1959, but when adjustment is made for influence of the Christmas season the increase amounted to $338 million, the smallest monthly rise since November, 1958. The addition to consumer debt brought the total outstanding to $52.0 billion, of which $39.5 billion was instalment debt.

An increase in personal loans outstanding accounted for about half of the $270 million gain in instalment borrowing. Automobile paper contributed only $16 million to the expansion as sales were curtailed by continuing shortages, and the large adjustment for seasonal influences pulled the increase in other consumer goods paper down to $80 million. Single-payment loans accounted for 85 percent of the $68 million advance in adjusted noninstalment debt. Big allowances for the impact of Christmas shopping brought the adjusted increases in charge accounts and service credit down near zero.

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ILLINOIS BUSINESS REVIEW

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Persistent Tight Money Policy

The economic philosophy of the Administration has been put on record in the usual opening-of-Congress messages, speeches, and testimony. Among its main features are: transcendent confidence in the future; determination to put the fight against inflation ahead of other policy goals; and reliance on monetary policy as a means of avoiding more troublesome forms of control.

The question is whether, at this juncture, the economy can afford the restrictive policies that derive from this philosophy. The following comments on monetary policy challenge the complacent view that if only we avoid rocking the boat everything will come out right.

Inflation Bogey Looms Large

The most important argument in favor of tight money is "the grim reality of inflation." This is the modern bogey man, and like its phantom predecessors, it was created for a purpose. It is supposed to scare the public into accepting higher unemployment, higher taxes, higher charges on their debt, and a slower advance in living standards.

It might seem that we should be hurt before we tremble. But this has not been the case. Even over the entire period of the most extreme "inflation" ever experienced in this country, output increased so rapidly that real living standards have moved up. Per capita disposable income in constant prices has risen steadily, gaining 60 percent from prewar 1939 to 1959. This increase, taken in conjunction with the fact that there has been a general movement toward income equality, makes it clear that the great majority have benefited from developments that also brought higher prices.

Not everybody has gained, of course. The position of those whose incomes could not keep pace with the rise in prices has deteriorated. This fact has been used in selling the bogey of inflation. The sales campaign was mainly carried out, not by the limited, non-vocal group that suffered, but by the banks and other financial institutions which stand to profit from higher interest rates. The tremendous outcry from these institutions and their representatives about "the danger the country faces" was almost bound to sound convincing from sheer repetition alone. So strongly has the idea been sold that some of its advocates now hold that "the public has been convinced." Whether people have become any more or less "bedazzled by the money illusion" is doubtful. But there is no doubt that success has been gained where it counts most — in Washington.

Except for the periods of World War II and Korea, price increases have been moderate, and recently the advance has petered out. In December, the sensitive commodity price index fell to a ten-year low. The general wholesale index has not increased significantly in two years; and the advance in consumer prices has slowed since last spring, but not stopped, mainly because of continued increases in service items such as rent and medical care.

In recent months a new rationale for high interest rates has derived from the adverse international balance of payments. Rising prices are now often blamed for this unfavorable development, but "inflation" is not actually the source of the difficulty, since prices have risen even more in other countries. The significance of competition from abroad is just the opposite of inflationary. Yet the same medicine is prescribed. The new idea is that high interest rates will help keep foreign funds in this country for the time being. But that kind of international "hot money" cannot really remedy the balance of payments problem, and it might create difficulties later.

Causes of Continuing Advance

Two points should be made to prevent misunderstanding. First, the deficiencies in these arguments are not pointed out in any spirit of recrimination against banks or other private institutions. All of us tend to view things from our own partial points of view. It is only to be expected that lenders will seek to advance their interests, just as everybody else does. Second, any implication that the expectation of higher prices is confined to the special groups which might profit from high interest rates or deflation would be misleading. Many disinterested economists expect moderate upward pressure on prices to be experienced as long as serious depression can be avoided.

At the root of this expectation is a profound mistrust of our economic leadership. Business management, labor leaders, and government are all expected to behave in ways that will increase prices or keep them from falling. In the private sector there are structural limitations and monopolistic practices, which make for "excess market power." In the public sector there are potential excesses in counter-cyclical action to halt recessions and subsidy or other programs to protect producers (such as farm price supports). All these actions tend to be alike in permitting price increases and preventing declines.

Most of the items responsible for the continued rise in the consumer price index since last spring reflect such influences. Several causes have worked together to produce the rise in costs of medical care; high drug prices, hospital fees, and health insurance schemes have helped to inflate consumer outlays. Government regulation and the gasoline tax increase have contributed to rising transportation and utility costs, and higher interest rates to increasing outlays for personal business expense. Excesses in packaging and distributive costs have widened the gap between retail and farm prices of food. None of these are causes whose action can be controlled by restricting over-all activity.

Interest Rate Policy

Despite its inadequacy in these circumstances, the tight money policy has been persistently enforced. It is hardly so effective a control that it can be held responsible for keeping unemployment high. Nevertheless, there is a danger that the policy might work.

(Continued on page 8)

CHICKEN AND EGG PRODUCTION

Although chicken and egg farming remains a sideline in many parts of the country, the industry as a whole has been rapidly changing in character during the past four decades. Today, chicken and egg production is a vigorous industry. In 1958, it brought a gross income of more than $3.1 billion and accounted for more than 90 percent of gross income from all poultry products. Eggs were the most important chicken product, accounting for 62 percent of income, and commercial broilers followed with 32 percent.

There has been a trend toward larger flocks and in many states chicken farming has become a highly specialized operation, particularly in the eastern and western sections of the country. The number of farms with flocks of over 400 increased from 60,000 to 146,000 between 1940 and 1954, whereas the proportion of farms reporting laying flocks declined from 85 percent to 71 percent. In Illinois the number of farms with flocks of more than 400 chickens rose from 1,100 to 5,600 during the same period.

Illinois — An Egg State

Chicken and egg production is still a minor enterprise on most Illinois farms, yet the total sales for these products reached a value of more than $87 million in 1958. Egg production, in which Illinois ranks fifth, is easily the state's most important poultry product in dollar volume. In 1958, eggs alone accounted for more than three-fourths of the total income from all types of poultry products.

Despite the large egg volume, the supply is insufficient to serve the state's population. For this reason, Illinois — especially Chicago — serves as a large outlet for eggs from the neighboring states of Wisconsin, Minnesota, and Iowa.

Because of the emphasis on egg production, more than 98 percent of the 17.4 million chickens kept on Illinois farms are hens and pullets (first-year layers). The number of producing hens in 1958 averaged more than 15 million, a figure exceeded only in the states of Minnesota, Iowa, California, and Pennsylvania. The total value for all hens and pullets (excluding commercial broilers) in Illinois was estimated at about $20 million.

During the past 25 years, Illinois has been steadily losing its position in the production of meat chickens, particularly broilers, which account for 80 percent of the total value of all meat chickens. Broilers are chickens less than fourteen weeks old and weighing 1½ to 3½ pounds, raised only for meat purposes. In 1934, Illinois ranked second in this area of the poultry industry, but by 1958 it had plunged to 27th place, despite a rise in production from 2 million to 8½ million broilers over that period.

Broiler production in the State did not increase so rapidly as in most states because Illinois farmers turned to more profitable operations when prices gradually declined as the mushrooming broiler industry became more competitive. Broiler production increased nationally nearly 49-fold between 1934 and 1958. The most rapid growth has taken place in southern and eastern states.

Hatcheries — Principal Chick Suppliers

Commercial hatcheries, which are widely dispersed throughout the State, provide the major supply of baby chicks to Illinois poultry producers. It is estimated that more than 98 percent of the chicks purchased in Illinois during 1958 came from commercial incubators, compared with only 73 percent in 1934.

Commercial hatcheries in Illinois, as in most states, have been shrinking in numbers since the 1930's, with the surviving ones becoming larger and reaching a wider market area. The number of hatcheries here dropped from 600 in 1934 to 224 in 1957.

The principal hatching season in the State is from January through July, with two-thirds of the total chick crop being produced during the months of March, April, and May. Seasonal hatching is much more pronounced in Illinois than the national average because of a heavier demand for layer chicks which mature safely during the warm summer months. However, broiler chicks, which accounted for two-fifths of the 49 million hatchery chicks produced in the State during 1958, help to stabilize monthly hatchery production; the weather factor is not as important in their growth pattern because all are marketed at an early age.

Marketing in the State

The system of marketing chickens and eggs in Illinois and other Midwestern states has undergone a major change in the postwar period. Prior to World War II, poultry products other than for local consumption were usually assembled in downstate Illinois and then shipped to Chicago and St. Louis for buyers from many states. But because of an increased demand for freshness and higher quality, coupled with climbing processing costs, most of the larger food chains today bypass the large terminal markets in Chicago and St. Louis, which strongly influenced price levels because of the heavy volume channeled through these centralized points. Terminal quotations from both cities are still widely used as a price basis by small chains, independents, and country dealers, but these changes have weakened the over-all importance of the terminals as a wholesale price-making mechanism.

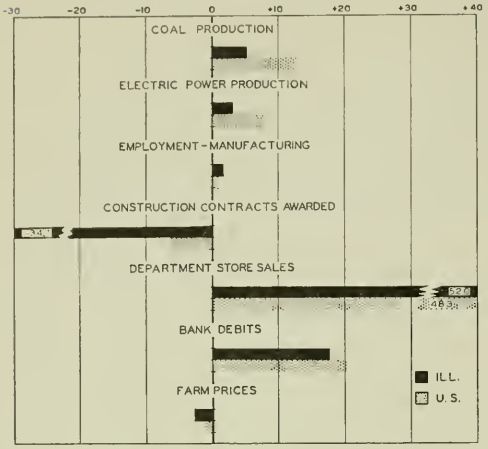
The impact of this shift is readily seen from the following percentage declines in Chicago receipts between 1945 and 1957: shell eggs, 16 percent; frozen eggs, 36 percent; live poultry (mostly chickens), 39 percent. Total processed poultry increased more than 50 percent to 183 million pounds because most poultry is now shipped to Chicago after processing.

Such factors as population growth, rising per capita demand for poultry products, and availability of convenient "ready-to-cook" chicken meat will probably keep consumption of chicken products at a high level. The industry in Illinois should be similarly stimulated. However, its growth will be strongly conditioned by the relative economic advantages of alternative farm enterprises.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes November, 1959, to December, 1959



ILLINOIS BUSINESS INDEXES

Item	Dec. 1959 (1947-49 =100)	Percentage change from Nov. 1959	Percentage change from Dec. 1958
Electric power[1]	252.3	+ 3.3	+ 2.6
Coal production[2]	93.3	+ 5.3	− 6.9
Employment—manufacturing[3]	103.0[a]	+ 1.6	+ 5.0
Weekly earnings—manufacturing[3]	166.9[a, b]	− 0.3	+ 2.9
Dept. store sales in Chicago[4]	125.0[c]	+ 1.6	0.0
Consumer prices in Chicago[5]	129.0	− 0.1	+ 1.6
Construction contracts awarded[6]	178.7	−34.7	−11.9
Bank debits[7]	234.0	+17.9	+ 6.7
Farm prices[8]	74.0	− 2.6	−10.8
Life insurance sales (ordinary)[9]	347.2	+20.1	+ 1.0
Petroleum production[10]	124.1	+ 0.7	−10.5

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Revised series. [b] Data are for November, 1959; comparisons relate to October, 1959, and November, 1958. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Dec. 1959	Percentage change from Nov. 1959	Percentage change from Dec. 1958
	Annual rate in billion $		
Personal income[1]	390.7[a]	+ 1.0	+ 6.5
Manufacturing[1]			
Sales	369.6[a]	+ 6.2	+ 9.6
Inventories	52.3[a, b]	+ 1.4	+ 6.3
New construction activity[1]			
Private residential	20.6	− 9.8	+ 2.3
Private nonresidential	16.1	− 3.9	+10.1
Total public	12.1	− 9.7	−16.4
Foreign trade[1]			
Merchandise exports	17.7[c]	+ 0.2	− 7.4
Merchandise imports	15.4[c]	+ 6.5	+17.8
Excess of exports	2.3[c]	−28.0	−61.5
Consumer credit outstanding[2]			
Total credit	52.0[b]	+ 3.3	+15.5
Instalment credit	39.5[b]	+ 2.0	+16.6
Business loans[2]	31.4[b]	+ 1.9	n.a.
Cash farm income[3]	43.8[c]	+ 1.6	+ 3.5
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	109[a, d]	+ 5.8	+ 9.0
Durable manufactures	107[a, d]	+11.5	+12.6
Nondurable manufactures	112[a, d]	+ 0.9	+ 6.7
Minerals	98[a, d]	+ 3.2	0.0
Manufacturing employment[4]			
Production workers	100	+ 1.7	+ 3.8
Factory worker earnings[4]			
Average hours worked	102	+ 1.5	+ 0.7
Average hourly earnings	170	+ 1.3	+ 3.2
Average weekly earnings	173	+ 2.9	+ 4.0
Construction contracts awarded[5]	224	− 6.3	− 2.5
Department store sales[2]	149[a]	+ 2.8	+ 4.2
Consumer price index[4]	126	− 0.1	+ 1.5
Wholesale prices[4]			
All commodities	119	0.0	− 0.3
Farm products	86	+ 0.5	− 5.2
Foods	105	− 0.2	− 3.8
Other	129	+ 0.1	+ 1.1
Farm prices[3]			
Received by farmers	84	− 1.2	− 6.7
Paid by farmers	119	0.0	+ 0.8
Parity ratio	77[e]	0.0	− 7.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] End of month. [c] Data are for November, 1959; comparisons relate to October, 1959, and November, 1958. [d] 1957 = 100. [e] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960 Jan. 30	Jan. 23	Jan. 16	Jan. 9	Jan. 2	1959 Jan. 31
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,478	1,442	1,471	1,500	1,465	1,431
Electric power by utilities mil. of kw-hr	14,313	14,523	14,236	14,308	13,565	13,151
Motor vehicles (Wards) number in thous.	206	207	204	191	130	145
Petroleum (daily avg.) thous. bbl.	7,136	7,190	7,146	7,112	7,068	7,107
Steel 1947-49 =100	158	158	158	158	158	126
Freight carloadings thous. of cars	602	587	606	592	483	583
Department store sales 1947-49 =100	112	113	120	132	112	106
Commodity prices, wholesale:						
All commodities 1947-49 =100	119.5	119.3	119.2	118.9	118.8	119.5[a]
Other than farm products and foods 1947-49 =100	128.6	128.7	128.7	128.6	128.5	127.5[a]
22 commodities 1947-49 =100	85.2	85.1	84.1	83.8	83.2	84.7
Finance:						
Business loans mil. of dol.	29,862	29,976	30,131	30,171	30,465	n.a.
Failures, industrial and commercial number	281	302	292	242	226	322

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for January, 1959. n.a. Not available.

RECENT ECONOMIC CHANGES

Steel Production

The American Iron and Steel Institute reported a record-breaking output of 11.9 million tons of steel in December, as operations were pushed up to 95.6 percent of capacity in an attempt to fill heavy current orders and to build up inventories. The previous monthly production high of 11.6 million tons was set in May, 1959.

Despite the 116-day strike period, during which 85 percent of the industry's steel-making capacity was shut down, steel companies managed to raise 1959 production to 93.4 million tons, about 9 percent above that of 1958, when only 85.3 million tons were turned out. In the first half of 1959 the industry was performing at a record rate as stocks were built up in anticipation of the strike. However, from August through October, only about 4.6 million tons were produced. As a result, the industry's operating rate for the year averaged only 63.3 percent of capacity, compared with 60.6 percent in 1958.

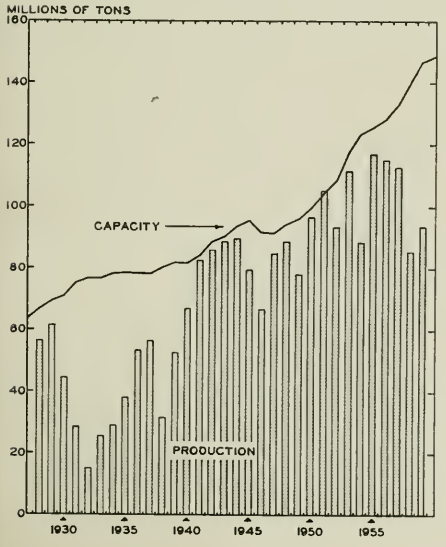
During the year capacity was increased to a new high of 148.6 million tons per year. This was an increase of only slightly more than 900,000 tons, compared with expansions of 6.9 million tons in 1958 and 7.2 million in 1957.

Farm-Retail Spreads

Charges for assembling, processing, and distributing farm-produced foods averaged about 1 percent higher in 1959 than in the previous year. The marketing margin, or farm-retail spread, for the farm products in the total family "market basket" increased from an average annual rate of $634 in 1958 to $641 last year. This advance was considerably smaller than the average annual increase of 3 percent from 1947 to 1959. Most of the increase in 1959 resulted from rises of 6 percent in the farm-retail spread for meats and 3 percent for bakery and cereal products.

While marketing margins increased slightly, the prices which farmers received for the products in the market basket dropped 7 percent last year. The farm value of foods fell from an average annual rate of $430 in 1958 to $399 in 1959. As a result the farmer's share of each dollar spent for farm foods fell to 38 cents, the lowest point in 20 years. A further result of the decline in the farm value of foods was that the retail cost of foods in the market basket decreased 2 percent from an average annual rate of $1,064 in 1958 to $1,040 last year.

STEEL PRODUCTION AND CAPACITY



Source: American Iron and Steel Institute.

Retail Sales

Total retail sales in 1959 rose to an estimated $215 billion, an increase of 7.5 percent over 1958. Since price increases at the retail level amounted to only about 1 percent during the year, most of the expansion in retail sales represented an increase in physical volume. Sales of nondurable goods rose 5 percent to $144 billion; durable goods' sales, however, experienced an exceptionally sharp advance of almost 13 percent in 1959.

Every major category of trade registered a gain during the year. The largest advance, about 17 percent over 1958, was recorded by automotive dealers. Retail food sales, on the other hand, rose less than 3 percent. One of the most significant changes was in sales of furniture and appliance stores, which rose 7 percent in 1959 following two years of decline.

Housing Vacancies

The average available vacancy rate on houses for rent or sale increased slightly to 3 percent of all dwelling units in the United States last year, according to the latest Census Bureau sample. Vacancies for sale averaged 0.6 percent of all available units in 1959, the same as in 1958. Vacant units for rent increased from 2.2 percent of all dwelling units in 1958 to 2.4 percent last year.

The average rental vacancy rate, which is based solely upon available rental units, rose to 6.4 percent in 1959 from 5.9 percent in the previous year. This rate more accurately describes rental market conditions than the rate based upon all dwelling units.

Regionally, the South and West continued to have the highest proportion of over-all vacancies with rates of 3.5 percent and 3.4 percent respectively. Vacancies for rent or sale inside standard metropolitan areas increased during the year to 2.7 percent in the fourth quarter, compared with 2.4 percent in the corresponding period in 1958. Outside standard metropolitan areas the vacancy rate dropped from 3.5 percent at the end of 1958 to 3.2 percent in the final three months of last year.

Unemployment

The number of jobless rose 572,000 persons in January, pushing total unemployment above the 4 million mark. Most of the increase resulted from seasonal reductions in retail payrolls and curtailment of outdoor activities. Employment during the month fell by 1.7 million, as over 1.1 million persons left the labor force.

Labor Department data, in thousands of workers, are as follows:

	Jan. 1960	*Dec. 1959*	*Jan. 1959*
Civilian labor force	68,168	69,276	67,430
Employment	64,020	65,699	62,706
Agricultural	4,611	4,811	4,693
Nonagricultural	59,409	60,888	58,013
Unemployment	4,149	3,577	4,724
Seasonally adjusted rate	5.2	5.2	6.0

GROWTH, PRICE STABILITY, AND THE 1961 BUDGET

WALTER W. McMAHON, Assistant Professor of Economics

The three economic objectives stressed by President Eisenhower when he presented his new budget to the Congress were (1) to "allocate our resources prudently," (2) to "extend economic growth into the future," and (3) to accomplish this "without inflation." The analysis that follows will seek to examine what the budget might accomplish in promoting these three objectives.

As a means to the attainment of these objectives the President proposes a $4.2 billion surplus in the administrative budget and, of greater economic significance, a $5.9 billion surplus in the cash budget. He obtains this surplus by projecting substantial increases in tax receipts dependent on the high prosperity expected for 1960. At the same time, expenditures are held slightly below the $80.7 billion level set in fiscal 1959.

Prospects for Higher Revenues

Budget estimates of revenues from existing and proposed taxes total $84 billion and anticipate a $5.4 billion increase over fiscal 1960, which would establish a peacetime record. This revenue estimate depends primarily on the underlying forecast that GNP will increase to an all-time high of $510 billion. Only $1.1 billion additional revenue is proposed in the form of new tax rates — a one-cent increase in postal rates and a half-cent increase in the gasoline tax. Most observers do not expect Congress to enact these changes in this election year.

The most important contribution to increased revenues is made by increases in individual income tax receipts, which account for $3.4 billion of the increase in total revenues. This estimate is based on a forecast of $402 billion personal income for calendar 1960. This is hardly unreasonable, since personal income is already running at an annual rate of $390 billion. Most major indicators, excepting residential construction which faces tight mortgage markets, also clearly suggest continued prosperity in the short run.

It is interesting to note in Table 1 that tax revenues consistently tend to be overestimated in periods of recession and underestimated in periods of prosperity. If we are truly headed into new highs of prosperity, this tendency to underestimate should appear again and may more than counterbalance revenue that was to be produced by the proposed new taxes. On the other hand, if recovery falters in 1960, the surplus could be wiped out without any significant recession.

A 5 percent error in the $84 billion revenue estimate could either double or wipe out the budgeted surplus; quick reference to Table 1 shows that the error has exceeded 5 percent in eleven of the last thirteen years. But without major unforeseen switches in the economic outlook there is no firm basis for amending the revenue estimates.

TABLE 1. ACCURACY IN ESTIMATING BUDGET REVENUES

Truman budgets		Eisenhower budgets	
Fiscal year	Overestimate (+) or underestimate (−)	Fiscal year	Overestimate (+) or underestimate (−)
1948	−15.7%	1955	+ 3.6%
1949	+11.1	1956	−12.0
1950	+10.4	1957	− 7.8
1951	−22.9	1958	+ 6.5
1952	−11.2	1959	+ 8.9
1953	+ 8.5	1960	− 1.9
1954	+ 5.1	1961	?

Expenditures and Resource Allocation

"Prudent resource allocation" as a budget objective is not restricted in its meaning to the narrow, superficial concept of allocation of tax dollars among expenditure categories. The more important questions involve the impact of the budget on allocation of the basic productive services or "resources" available to the economy as a whole. The first important question involves the allocation of resources between public and private use, or more pointedly, the size of the federal government as measured by the $79.8 billion in expenditure proposed for fiscal 1961 relative to the size of the private sector of the economy. Another important question concerns the effect of amounts budgeted on efficient use of resources.

Rather than rail at the largeness or smallness of the public sector, it will be more useful to try to contribute some insight as to why the government is the size that it is and why different groups feel so strongly about its size. Expenditures on the major nondefense items such as highways, commerce, and education are indivisible among individuals and, presumably, benefit all approximately equally. But not all individuals pay an equal amount in income taxes and therefore a redistribution of *real* income occurs through the taxation-expenditure process. Therefore, the larger the federal budget, the larger the amount of redistribution.

Some individuals, mostly those in the low-income brackets, receive more in public benefits than they pay in taxes. To the extent that they tend to respond to the way in which this affects their personal fortunes, they will tend to favor large public expenditures on nondefense items. Conversely, assuming benefits are about equally distributed, individuals with higher income pay more in income taxes than they receive in benefits. They are more sensitive to the tax side of the budget, and will vote against increasing the size of the nondefense portion of the public sector if given the opportunity. Individuals respond, of course, to many factors in addition to this economic factor, but it seems to be of some relevance to the position taken by various groups on the question "Is President Eisenhower's $79.8 billion budget too large?"

If the budget is to survive intact, the Administration must propose a budget that defines a size of the public sector that is acceptable to members of the Congress. They in turn reflect the wishes of the voters to some extent if they wish to remain in office. This key decision regarding the size of the public budget is seen, therefore, in large part as a response to economic and political factors in the private sector, and not entirely as a "policy variable." In a setting where growing private incomes automatically result in larger public revenues and also result in demands by the majority for better schools, highways, and other public services, the natural response of a public administrator is to propose a larger public budget. Budgets can reasonably be expected to continue to grow, but changes in the *relative* size of the public sector are another matter.

The expenditure side of President Eisenhower's new budget is, in fact, a smaller percentage of national income (18 percent) than any budget in the last nine years.

Whether the allocation in this budget is "prudent" or not depends on one's point of view. Budget planners started with an $80 billion ceiling and then held expenditures to a 1.8 percent increase over fiscal 1960 by completely freezing the major national security total and allowing only minor increases in other major categories. It is useless to enter the current defense debate lacking, for one thing, trustworthy detail on the new Soviet budget. However, a comment will be made on one other major budget item and one that does not foster "prudent allocation" of the basic resources available to the economy as a whole. That is the $4 billion of agricultural price support and soil bank expenditures.

Most important from a long-run point of view, the price support approach does not encourage a rate of movement from farm to industry that is fast enough to restrain the growth of agricultural output that has produced serious surpluses. The President and the Secretary of Agriculture seem to understand the temporary and inadequate nature of the output adjustments in the present program and complain about "uncontrollable, unrealistic, price support expenditures." No doubt there are serious political difficulties, but this budget probably does not propose as much positive action as it might toward obtaining a "prudent resource allocation" and thereby getting at a basic cause of intolerably low farm incomes.

There is a lack of any major significant changes on the expenditure side since last year. This suggests that it is an unimaginative budget; no major crusade is to be conducted to obtain, in the President's words, a more "prudent resource allocation" or to control the "uncontrollable item." Under these conditions, new programs usually tend to be sacrificed by being subjected to much more rigorous tests than old programs which have collected many vocal defenders.

Budget Implications for Price Stability

The President proposes the $5.9 billion cash surplus as a countercyclical device appropriate to achieving his third objective, that of avoiding inflation. This surplus, together with the $13.1 billion deficit that appeared in the cash budget as a result of the recent recession, indicates a desire to level the economic peaks and to fill the troughs. In the President's words, "In times of prosperity such as we anticipate in the coming year, sound fiscal and economic policy require a budget surplus to help counteract inflationary pressures. . . ." The budget message implicitly assumes that inflationary pressures are demand induced.

Demand-induced inflation occurs primarily when the resources available in the economy are already fully employed. A budget surplus attacks this by withdrawing purchasing power from consumers and producers and by not returning it in a way that facilitates respending. The surplus that is projected would be narrowed if Congress should increase defense expenditures or school aid or if good weather in the Corn Belt should increase price support expenditures. But barring a sharp change in the economic outlook, and with high marginal income tax rates that tend to produce surpluses in prosperity and thereby dampen inflations almost automatically, the President has an excellent chance of getting a substantial surplus, even though it may not be the full $5.9 billion planned for in the cash budget.

The proposals in the budget message for larger expenditures for debt interest and for shifts in the composition of the public debt from short-term securities to less liquid, long-term securities are also consistent with an effort to control any price increases that are demand induced. The high-interest-rate policy operates to restrain the demand for investment goods. And use of the surplus to retire short-term debt that tends to be held by commercial banks leads to the contraction of bank loans and deposits, especially when coupled with pressure on bank reserves maintained by the Federal Reserve Board.

The problem is that demand-induced price increases are not the only factors contributing to increases in the price level. There are, for example, "ratchet effects" that give rise to differences in *relative prices* by producing increases in certain prices when demand shifts while others remain approximately steady. The result is an increase in the average level of prices. Ratchet effects become most apparent when the economy is just short of enough demand to produce full employment. Defining full employment for this purpose as 96 percent of the civilian labor force employed, Table 2 shows that the economy was just short of the full-employment level in 1949-50, 1954, and 1957-59. The pressure of demand on available resources was not primarily responsible for the price increases which did occur in those years.

One reason for these ratchet effects is the operation of barriers to entry that lead to a small number of sellers in a market. Under these oligopoly conditions, prices are raised but seldom lowered because firms fear retaliation if they try to cut prices. In a similar fashion, labor unions possess power in the labor markets to obtain wage increases and prevent cuts. For example, during the 47 percent reduction in automobile output in 1957-58, manufacturers' prices of automobiles did not fall but actually went up. Wage rates in Detroit also remained firm in spite of the reduced demand for labor in that industry. As unions and interdependencies among oligopolists together encourage this upward flexibility, the price level rises. In general, the budget message proposes no plans to deal with rachet effects or to get at the cost side of price increases.

This distinction between price increases that are demand induced and those that are based on barriers to entry and related cost factors explains why prices may increase while there is still some unemployment. Price increases averaged 2.3 percent per year over 1957-59 while unemployment averaged 5.7 percent over the same period. Unemployment remains at around 5 percent, which is below the full-employment level. But the budget effort for price stability consists only of an attack on those price increases that are attributable to excess aggregate demand.

TABLE 2. PRICE CHANGES AND UNEMPLOYMENT

Year	Percent annual increase in consumer price index	Percent of civilian labor force unemployed
1950	1.0	5.0
1951	8.0	3.0
1952	2.3	2.7
1953	.8	2.5
1954	.3	5.0
1955	−.2	4.0
1956	1.5	3.8
1957	3.4	4.3
1958	2.7	6.8
1959	.9	6.0
Dec., 1959		5.2[a]

[a] Seasonally adjusted.

Sources: *Federal Reserve Bulletin* and *Survey of Current Business.*

Economic Growth and the New Budget

The remaining economic objective that President Eisenhower defines for his new budget is to "support continuing sound economic growth into the future." The surplus is designed to assist in the attainment of the growth objective by "reducing government competition with private industry, individuals, and state and local governments for investment funds" and by helping to "ease the pressure on interest rates." That is, the President assumes that as the surplus is used to retire debt, the funds thus supplied to the money markets will be reinvested, leading to private capital formation and hence to growth.

Both private and public investment can lead to real capital formation and thereby may lead to increases in productivity per man-hour. Private and public efforts can also increase productivity in other ways. For example, both private and public education improve the quality of the labor force and thereby usually raise its productivity.

In examining the emphasis in the budget message on private rather than public investment, it should be recognized that if increased investment is undertaken, there are short-run real economic costs involved. In the long run, the higher incomes generated by either private or public investment may make these short-run costs self-liquidating. Public investments can be paid for through taxes which restrict consumption, or both private and public investment can be paid for with borrowed funds. In full-employment periods real capital formation must be at the expense of consumption or price increases are generated which are another form of short-run tax that falls on real purchasing power. It clarifies the role of capital formation in the growth process if it is seen as a choice between present and future consumption that is involved.

The President's objective of "extending growth," given the importance of capital formation in the growth process and the absence of significant new provisions in this budget for public investment, is a matter that he intends to leave primarily to the private sector. Since the budget message requests the lifting of the interest ceiling on Treasury bonds in anticipation of a shift into long-terms, the budget surplus will not in fact make long-term funds more readily available for private investment projects but will be used instead to retire short-term securities. It is clearly desirable to have a rate of capital formation that is sustainable. It is also possible that this surplus and high-interest-rate policy may restrict private investment to the point of holding the rate of growth below a sustainable level, given the firm effort to maintain price stability. It is well known that, given multiple goals, the means to the attainment of one often block full attainment of the other.

Questions about the extent of the government's influence on resource allocation, growth, and price stability are focused each year in the President's budget and are among the most important issues of our times. The budget estimates and policies depend on the assumption of a record prosperity which has been forecasted. From the foregoing analysis it must be concluded that the new budget is not so much concerned with firm attempts to encourage "prudent resource allocation" in an election year or with attempts to increase the sustainable rate of economic growth through either private or public investment as it is with restraining price increases that it assumes to be demand induced.

Persistent Tight Money Policy

(Continued from page 2)

The Fed attempts to justify all the inadequacies of its policy by asserting the need for "free" money and capital markets. In this argument it seems to gain support for its policy by abrogating its function, because complete market freedom would be inconsistent with any kind of central bank control. The banking system is organized to permit flexibility in the expansion of money and credit to meet the needs of business. The extreme flexibility of this mechanism is evident in the whole upward sweep of activity, prices, and credit during the last two decades. To argue at the end of such a period that any further expansion would "debase the integrity of the dollar" sounds specious indeed.

The banks gain the most when their own credit is being used to the limit but Federal Reserve credit is restricted to put interest rates up. Since the Fed-Treasury Accord of 1951, reserve requirements have been lowered several times. This permitted the maximum expansion of bank credit and raised the level at which control by other kinds of Fed action can be effective. It also maximized bank profits, and in part this was at government expense, since rediscounting or open-market operations would bring earnings to the Fed and indirectly to the Treasury. In view of the consistent import of its actions, one may wonder whether the Fed is controller or controlled.

The developments of 1959 show how policy may favor high rates as much as it did low rates before 1951. A coincidence of temporary pressures on the government bond market was permitted to build up, apparently with Treasury approval. The banks sold governments to get funds to increase business and personal loans. The government had to borrow heavily as an aftermath of the 1958 recession. Once activity rose to new highs in the second quarter of 1959, the deficit had been eliminated except for the seasonal lag in receipts. The Fed ordinarily makes seasonal funds available for business but did not for the government. Hence rates were pushed up to the highest in 30 years, and interest costs on the federal debt rose by $1.7 billion in one year, to $9.4 billion. Since government-bond rates are considered basic to other rates, the whole market moved up correspondingly.

Restrictive action of this kind forces increases in velocity of circulation to serve the needs of a growing economy, and this introduces an element of instability into a situation already unstable in other respects. It may be that it has even succeeded in inhibiting growth somewhat. Certainly the 2 percent rate experienced since 1955 is consistent with the rate of increase to which the money supply has been held since 1951, but it is inadequate to maintain full employment. Further increases in unemployment must be expected as long as a low rate persists or worsens.

The recent stability of prices in the circumstances of an inventory-credit boomlet and strike-imposed shortages is a warning of danger. To date all such warnings have been disregarded. Little thought is given to the impact of intensified competition at home and abroad, and the possibility that deflation may again become as recalcitrant in the years ahead as inflation has been recently is ignored. Washington is too preoccupied with prospects for growth in the indefinite future to give heed. The primary factual basis for this optimism is our success in finding the three declines experienced in this postwar period to be only minor recessions. As Wesley Mitchell pointed out years ago, that pattern of experience is simply par for the cyclical course. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Value Added by Manufacture

According to a preliminary summary of the *1958 Census of Manufactures* released by the United States Department of Commerce, value added by manufacture amounted to $142 billion in 1958, while employment in manufacturing totaled 16 million. The 1958 figures show that value added by manufacture was up approximately 20 percent from the 1954 total of $117.5 billion but down about 4 percent from the 1957 total of $148 billion. There was little change in employment from the 1954 total, but it declined about 7 percent from the 1957 figure.

The Department of Commerce is scheduled to release four other preliminary summary reports in the future. These reports will present state totals for all manufacturing combined, general statistics for states by major industry groups, statistics for 60 to 65 of the larger standard metropolitan areas by major industry groups, and general statistics for most counties. In addition, another series of preliminary reports presenting material on individual industries will be released during the early months of 1960. These will cover 400 manufacturing industries.

Farm Commodity Surpluses

Farm commodity surpluses held by the Commodity Credit Corporation climbed to a new record high of $9.5 billion in 1959, $1.6 billion more than a year ago. The total was equal to about 25 percent of cash farm income for the year. Corn, grain sorghum, wheat, and cotton made up the major portion of the farm surpluses. The carryover of feed grains into 1960 is estimated at 80 million tons, or about 60 percent of domestic consumption in 1959. Wheat carryovers are expected to amount to 1.4 billion bushels, more than double last year's domestic consumption. Cotton stocks should total almost 9 million bales, equal to annual domestic consumption.

The accompanying chart shows the pattern of the buildup of government holdings of farm surpluses. At the end of 1937, the value of commodity surpluses totaled $312 million, or less than 4 percent of cash farm income. By 1940, however, the value of stocks was $1.2 billion, or 15 percent of cash farm income. Stocks were unloaded during World War II, but between 1946 and 1949 they increased from $528 million to $3.6 billion. During the war in Korea they fell below $2.9 billion. This was followed by a four-fold increase in accumulated surpluses between 1952 and 1959, a rise which was halted temporarily in 1956 by a large government export subsidy program coupled with a short cotton crop.

Technological innovations in farming have played a major role in the increasing level of farm output. Since 1954 crop production per acre has increased about 25 percent, whereas the amount of cropland used for crops has decreased about 6 percent.

VALUE OF FARM COMMODITY SURPLUSES*

* Includes price support loans and inventories at cost. Source: Federal Reserve Bank of St. Louis, *Monthly Review*, p. 9.

Removal of Radioactivity from Milk

Business Week recently reported that Drs. W. D. Armstrong and Leon Singer at the University of Minnesota have developed a simple, inexpensive method of getting radioactive strontium out of milk. The operation involves a long glass tube filled with bone that has been powdered after removal of the bone fat. As the radioactive milk passes through the tube, the strontium 90 ions are pulled out of the milk because of their similarity to the calcium ions in the bone. This treatment removes virtually all of the radioactivity from the milk without changing its flavor appreciably. It is reported that the tube full of bone is reusable after being flushed out with calcium. The developers are now seeking ways to permit the treatment of milk in large quantities.

College Recruitment in 1960

The January issue of *Management Record* presents a summary of Dr. Frank S. Endicott's fourteenth annual report on recruitment of college graduates by business firms. The general findings of the survey indicate that 1960 promises to be better for graduates seeking employment than 1959, which was considered to be a good year. The Endicott survey covers 211 companies, for the most part large manufacturing concerns with special interest in graduates with technical backgrounds. The companies surveyed will select only about 5 percent of the estimated number of 1960 graduates.

The survey indicated that recruitment will be stepped up in 1960. Only 53 of the companies are cutting their quotas, while 122 are increasing theirs. Eight are increasing quotas by 100 or more candidates each. It was found that 98 companies plan to visit more campuses, while 39 will visit fewer. One company in five will be doing some recruiting of women graduates in 1960.

Indications are that salaries for 1960 graduates will be approximately 2 percent higher than for last year's graduates. Engineering graduates will receive the highest salaries, ranging from $478 per month to $532 per month. Salaries for accountants will range from $421 to $464 per month, and those for general business trainees from $400 to $443 per month. The average starting salary for all fields will be $458 per month.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity in December advanced generally from the preceding month. The only major indicator showing a substantial decline was construction contracts awarded, which dropped 35 percent. The greatest increases were in life insurance sales and bank debits, which were up 20 percent and 18 percent respectively.

Illinois Aid to Jobless

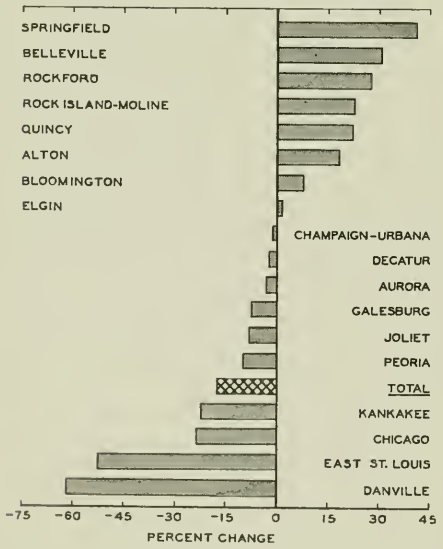
According to the Illinois State Labor Department, unemployment in Illinois fell in 1959 despite losses in employment due to the steel strike and the consequent shortage of steel during the last quarter of the year. The number of insured unemployed persons declined from about 141,000 in 1958 to 114,000 last year. Unemployment benefit payments dropped from $223 million in 1958 to nearly $137 million in 1959, a decline of about 40 percent. Benefit payments included about $120 million paid to unemployed workers under the state unemployment compensation program and $17 million in temporary emergency benefits.

Compared with 1958, the duration of unemployment per worker declined in 1959, dropping from an average of 14.2 weeks to 12.8 weeks, and the 6.4 million man-weeks of unemployment compensated in 1958 was reduced to 3.8 million in 1959. Average weekly payments were $30.04 in 1958 and $29.70 in 1959.

Drop in Building Permit Valuation

The total building permit valuation of twenty major Illinois cities dropped from a record high of $483 million in 1958 to slightly less than $400 million in 1959. This represents a decline of 17 percent and is in contrast to the 20 percent gain in building permit valuation for the nation. It was the first time since 1952 that total building permit valuation for these selected cities had declined from the previous year's level. However, the 1958 record resulted mainly from Chicago's new steel mill, which accounted for about one-fourth of the total valuation in the twenty cities that year. Except for this project, the 1959 valuation would have been greater than that of 1958.

CHANGES IN BUILDING PERMIT VALUATIONS, 1958 TO 1959



Sources: U.S. Departments of Commerce and Labor, and local sources.

The accompanying chart shows that the building permit valuations of more than half of the selected cities declined from 1958 to 1959. The most extreme changes occurred in Danville and East St. Louis, which had decreases of 62 percent and 53 percent respectively. At the same time, Springfield's building permit valuation increased 41 percent, followed by Belleville with 30 percent and Rockford with 28 percent.

Chicago Commuter Service

The officers of the Chicago and North Western Railway Company recently announced a slim profit of about $30,000 from operations in 1959. The North Western carries some 40,000 commuters each working day between Chicago and its suburbs. Though the profit is small, it breaks the pattern of constantly rising losses that commuter operations have experienced almost since the end of World War II. In order to accomplish this, the North Western officials instituted a plan which called for the closing of 23 suburban stations within Chicago, changing the type of tickets used to improve collection procedures, and increasing fares 24 percent. Although the station closing and ticket system changes produced savings, the expected growth of 6 percent in number of commuters failed to materialize.

The North Western officials have now placed a $21 million order for 116 new double-deck, air-conditioned coaches and for conversion of 45 locomotives. By mid-1961 there will be 200 of these new coaches in use, replacing 415 of the old ones and at the same time increasing seating capacity. The new locomotives will provide an extra time and cost feature by operating on the push-pull principle; that is, the locomotives will remain at the same end of the train, saving time and switching costs.

State Aid to Schools

The Illinois Superintendent of Schools recently announced that state aid to schools will total $159 million for the 1959-60 school year and will be paid to 1,624 public school districts. This represents an increase of nearly $62 million, or 63 percent, over the 1958-59 total.

A district may receive up to $252 per pupil, the amount depending on average daily attendance coupled with an equalization formula. This formula provides for a flat state grant of $32 per high school pupil and $47 per elementary pupil and a fluctuating amount of state money that depends on local tax yields for educational purposes. A district submits its claims for state aid based on school attendance through October, with the first payment beginning in the following February. At the end of the school year, the average daily attendance for the best six months of the school year is used to determine payments between August and January, in order to adjust for any changes in enrollment during the school year.

As might be expected, Cook County receives more state aid than any other county, obtaining $38 million in 1958-59 and $61 million in 1959-60. Douglas County, whose claims rose from $105,000 to $284,000, had the greatest percentage increase (170 percent). Eleven other counties showed increases of 100 percent or more.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1959

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$24,082[a]	1,291,855[a]	$561,845[a]		$20,458[a]	$20,598[a]
Percentage change from	Nov., 1959	+25.9	+8.7	−5.2	+52	+17.9	+14.8
	Dec., 1958	+7.1	+8.6	+1.7	+1	+6.7	+8.1
NORTHERN ILLINOIS							
Chicago		$17,769	958,118	$408,734		$18,871	$17,848
Percentage change from	Nov., 1959	+28.6	+9.3	−5.6	+53	+18.7	+12.8
	Dec., 1958	+15.3	+7.3	+0.8	+3	+7.0	+8.9
Aurora		$1,334	n.a.	$ 9,604		$ 86	$ 189
Percentage change from	Nov., 1959	+273.7		+2.5	+45	+10.7	+21.4
	Dec., 1958	+50.4		+11.2	+5	+20.1	+8.6
Elgin		$ 193	n.a.	$ 6,986		$ 53	$ 151
Percentage change from	Nov., 1959	+15.6		+7.4	n.a.	+14.5	+22.0
	Dec., 1958	−48.9		+10.4		+4.2	+10.7
Joliet		$ 228	n.a.	$10,438		$ 98	$ 141
Percentage change from	Nov., 1959	−12.3		−5.5	+58	+17.5	+32.4
	Dec., 1958	−56.0		−2.9	+4	+5.7	−12.5
Kankakee		$ 166	n.a.	$ 5,141		n.a.	$ 76
Percentage change from	Nov., 1959	+127.4		+1.7	n.a.		0.0
	Dec., 1958	+2.5		−0.8			+0.8
Rock Island-Moline		$1,032	28,978	$12,076		$ 128[b]	$ 221
Percentage change from	Nov., 1959	+87.3	+4.8	+1.5	n.a.	+5.7	+33.0
	Dec., 1958	+130.4	+14.0	+14.3		+8.3	+9.7
Rockford		$ 860	52,712[c]	$18,608		$ 220	$ 307
Percentage change from	Nov., 1959	−10.3	+3.8	−3.4	+63[c]	+11.9	+32.8
	Dec., 1958	+29.7	+8.2	+7.0	−3[c]	+11.5	+5.1
CENTRAL ILLINOIS							
Bloomington		$ 196	10,858	$ 5,518		$ 79	$ 124
Percentage change from	Nov., 1959	+145.0	+13.3	−7.4	n.a.	+8.4	+42.1
	Dec., 1958	−10.5	+15.0	+0.2		−8.7	+8.3
Champaign-Urbana		$ 152	15,684	$ 8,417		$ 83	$ 141
Percentage change from	Nov., 1959	−44.3	+8.8	−11.3	n.a.	−2.5	+21.1
	Dec., 1958	−59.2	+10.1	+3.6		+6.9	−3.5
Danville		$ 131	13,959	$ 5,920		$ 52	$ 91
Percentage change from	Nov., 1959	+0.8	+3.7	−12.1	+63	+10.7	+32.3
	Dec., 1958	−34.2	+4.9	+0.7	−3	−2.8	−3.8
Decatur		$ 701	36,411	$11,379		$ 124	$ 155
Percentage change from	Nov., 1959	+99.1	+2.6	−6.4	+62[c]	+2.3	+34.8
	Dec., 1958	+90.0	+8.5	+0.7	−1[c]	−0.8	−4.3
Galesburg		$ 135	9,632	$ 4,510		n.a.	$ 59
Percentage change from	Nov., 1959	−23.3	+5.7	−9.2	n.a.		+23.5
	Dec., 1958	−12.3	+1.5	−6.1			+1.6
Peoria		$ 436	61,079[c]	$17,918		$ 254	$ 438
Percentage change from	Nov., 1959	+63.9	+21.3	−3.4	+59	+14.1	+40.3
	Dec., 1958	−42.3	+11.2	+8.3	+2	+2.0	+15.0
Quincy		$ 166	11,688	$ 5,210		$ 54	$ 89
Percentage change from	Nov., 1959	−72.7	+6.8	−4.9	+60	−3.4	+24.3
	Dec., 1958	−84.8	+5.9	+4.3	−2	+0.3	−8.8
Springfield		$ 276	39,826[c]	$13,603		$ 145	$ 341
Percentage change from	Nov., 1959	−29.2	+2.4	−5.8	+52[c]	+7.7	+21.7
	Dec., 1958	−38.5	+0.6	−1.1	−1[c]	+0.2	−5.6
SOUTHERN ILLINOIS							
East St. Louis		$ 64	16,193	$ 8,246		$ 160	$ 104
Percentage change from	Nov., 1959	−56.2	+6.5	−10.4	n.a.	+11.8	+16.4
	Dec., 1958	−54.6	+21.8	−1.4		−3.4	+12.3
Alton		$ 149	24,538	$ 5,049		$ 50	$ 53
Percentage change from	Nov., 1959	−66.9	−3.0	+2.8	n.a.	+15.8	+42.3
	Dec., 1958	+396.7	+80.5	+9.6		+0.9	+4.0
Belleville		$ 94	12,178	$ 4,487		n.a.	$ 69
Percentage change from	Nov., 1959	+10.6	+8.5	−2.0	n.a.		+34.5
	Dec., 1958	−60.3	+16.2	+1.6			−7.5

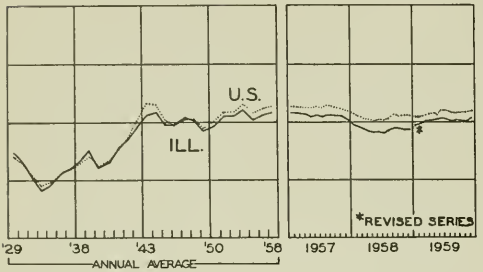
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for November, 1959. Comparisons relate to October, 1959, and November, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending December 18, 1959, and December 19, 1958.

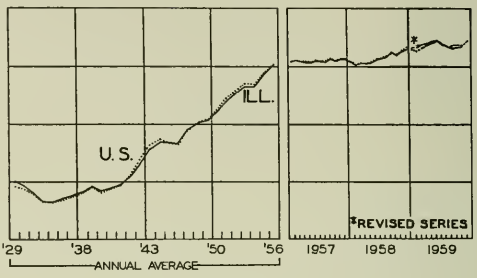
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

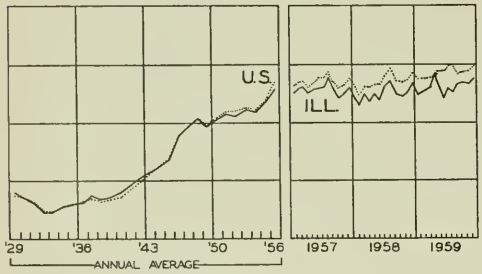
EMPLOYMENT MANUFACTURING



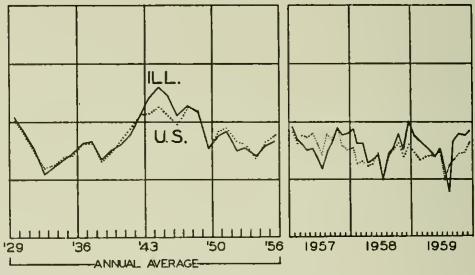
AVERAGE WEEKLY EARNINGS — MANUFACTURING



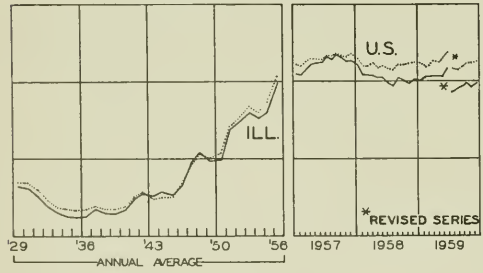
DEPARTMENT STORE SALES



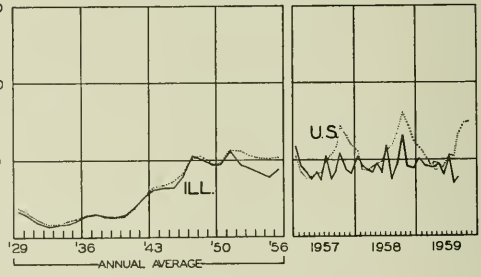
COAL PRODUCTION



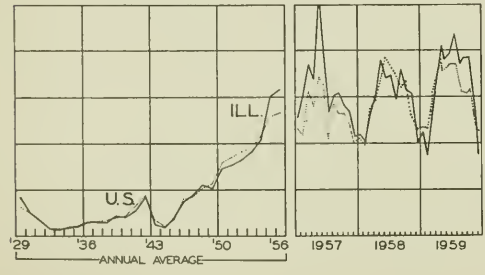
BUSINESS LOANS



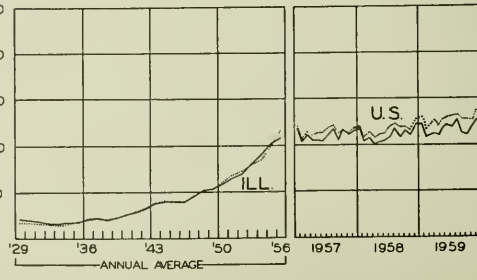
CASH FARM INCHOME



CONSTRUCTION CONTRACTS AWARDED



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN FEBRUARY

The sharp post-strike rebound in economic activity appeared to be ending in February. The index of industrial production fell 1 point to 167 (1947-49 = 100). The seasonally adjusted index of department store sales declined 6 points to 140 percent of the 1947-49 average. However, employment reached a record high for the month and the rate of unemployment dropped from 5.2 percent to 4.8 percent, after allowance for seasonal factors.

Weekly steel production edged down from the preceding month, and automobile output declined from 689,000 units in January to 659,000 in February. With dealers' inventories of both new and used cars near record highs at the end of February, further cuts in auto production were being made in March. It now appears that first-quarter output of automobiles will run about 15 percent below original schedules. However, sales of American-made passenger cars in February were up about 6 percent over January on a daily average basis, with the total for the month amounting to 484,000 units.

Another Gain in Construction

The seasonally adjusted annual rate of new construction put in place rose nearly 2 percent from January to February, reflecting less-than-seasonal declines in both private and public activity. The unadjusted volume of construction expenditure in February amounted to $3.6 billion, down 4 percent from the preceding month but 2 percent above the year-earlier period. Private construction was off 3 percent from January to $2.7 billion, as residential building dropped from $1.5 billion to $1.4 billion. Small increases over January were reported for private nonresidential building, farm construction, and utilities.

Public spending on construction totaled $912 million, down 7 percent from January and 12 percent from the year-earlier month. All categories of public construction except housing declined from January. Highway expenditures fell from $280 million to $250 million, bringing them 22 percent below February, 1959.

Inventories Accumulate

Business inventories rose at a $12.0 billion annual rate in December and January, carrying stocks above the 1959 pre-strike high. Monthly increases of $1.0 billion in the seasonally adjusted book value of manufacturing and trade inventories brought the total to $90.4 billion at the end of January.

Most of the accumulation occurred in manufacturers' stocks, the book value of which rose $750 million in January to $53.2 billion. Sales by manufacturers were unchanged from the preceding month at an adjusted $30.8 billion, with a rise of $400 million in shipments of durables, mostly autos, being offset by a decline in nondurables. Seasonally adjusted new orders received by manufacturers fell $1.0 billion to $29.7 billion, with the decline shared equally by durables and nondurables.

Trade inventories also rose, with wholesalers' stocks up $100 million and those of retailers up $200 million, after allowance for seasonal factors. Nearly all of the latter increase was accounted for by expanded automotive inventories in dealers' hands. Retail sales advanced from $17.5 billion in December to $18.2 billion in January, largely as a result of increased automobile sales.

Further Rise in Consumer Debt

Consumers added a seasonally adjusted $463 million to their short- and intermediate-term debt in January. The total outstanding at the end of the month amounted to $51.4 billion, of which $39.4 billion represented instalment debt and $12.0 billion noninstalment obligations. Instalment loans accounted for $393 million of the debt expansion in January, with extensions of new credit of this type amounting to $4.2 billion compared with repayments of $3.8 billion. Part of this increase reflected the pickup in auto sales in January: additions to automobile paper outstanding came to $149 million. Other consumer goods paper and personal loans expanded $119 million and $101 million respectively. Seasonally adjusted increases of $41 million in single-payment loans and $31 million in charge accounts accounted for the expansion in noninstalment debt.

Rise in Capital Spending Predicted

The latest SEC-Commerce survey indicates that businessmen expect to spend $37.0 billion on new plant and equipment in 1960 compared with actual expenditures of $32.5 billion in 1959. This would be an increase of 14 percent and would raise total outlays to the previous high established in 1957. Manufacturing firms were the most optimistic, predicting a rise of $3.0 billion in their spending to $15.1 billion in 1960. Increases of 67 percent by the iron and steel industry and 59 percent by the motor vehicle industry were anticipated before recent production cutbacks. Outlays by nonmanufacturing firms were expected to rise only $1.4 billion to $21.9 billion.

INVESTMENT OPPORTUNITIES IN THE BOND MARKET · By R. W. Mayer · Page 6

ILLINOIS BUSINESS REVIEW

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High Cost of Medical Care

In the recently released Study Paper No. 5 of the Joint Economic Committee entitled "Trends in the Supply and Demand of Medical Care," Markley Roberts observes: "Total spending on health and medical care is approaching $25 billion a year, or about 5 percent of gross national product. The price of this portion of the GNP has been rising rapidly, and thus has served to raise consumer prices, and no study of inflation would be complete without examination of this sector." At the last report, the prices charged for medical care stood 53 percent above the 1947-49 average — highest of any major component of the consumer price index.

It is common to speak of the "revolution in medical science" during the last quarter century. The new technology has changed medical practice tremendously, not only in its health-giving aspects but in its economics as well. In seeking to understand the latter, conditions affecting at least four kinds of medical costs have to be considered — doctors' fees, drug prices, hospital charges, and health insurance premiums.

The Doctor

Part of the pressure on prices derives from a shortage of doctors relative to the expanding demands of a prosperous people. Although the total number of doctors rose by one-eighth from 1949 to 1957, the ratio of doctors declined from 135 to 132 per 100,000 population over the same period. Despite this relative decline, doctors' fees rose less than the index of medical care and even a little less than prices of all service items.

This restraint in pricing does not mean that the doctor's income has been correspondingly limited. The doctor has a better arsenal of tools, enabling him to treat more patients, often with only casual contact. Since the danger of moving patients for office visits is reduced by more effective drugs, he makes fewer time-consuming house calls. He dispenses fewer drugs directly, partly because there are just too many, and he assigns some aspects of diagnosis or treatment to hospital personnel, so that his services are supplemented, but higher prescription, hospital, and laboratory charges are added.

In making this substitution, there are many occasions for a choice between more or less costly forms of treatment, and there appears to be little incentive to choose the less expensive. The medical profession accepts responsibility for the health of the patient but not for his economic welfare. The tradition of charging in accordance with ability to pay has often aided the poor, but recently insurance plans have increased the number of patients who are able to pay. If the busy doctor can save time by shifting part of the treatment, he may therefore be inclined to do so. Moreover, under the new technical conditions some form of group practice is often desirable and at times is even a necessity, so he maintains local hospital ties, and any conflicts of interest that arise may reasonably be resolved in favor of himself and his associates.

The drug companies have moved toward sharing in this relationship. Their primary promotion effort through the detailmen — field representatives who visit doctors periodically in their own offices — is directed at developing a similar partnership. Where there is a choice between an expensive and a cheap drug, who should benefit? A recent statement of the AMA Council on Medical Service seems to suggest that this question should be answered in favor of the drug company except where the patient clearly cannot afford to pay: "Physicians might well give consideration to prescribing by generic rather than [brand] names . . . in the treatment of welfare patients."

The Drug Company

The research that produced the new drugs and vaccines has eliminated or greatly reduced some of the most deadly diseases and shows promise of dealing with others. Some of the new drugs have been so useful as to be typically over-used — as indicated by reactions from repeated use. There are now so many of them, the local drugstore cannot stock them all and the doctor cannot fully know their uses and limitations.

In January it was pointed out here that costs and prices in the drug industry have been inflated by wasteful competition in drug development and promotion and, further, that these forms of competition resulted in a stratified market situation that permitted profits to rise with costs. The prescriptions-and-drugs component of the consumer price index has risen about 35 percent since the base period, or almost twice as fast as the average for other commodities. Nevertheless, it has risen least of the four major components of medical care.

The justification for the intensive promotion through an army of detailmen estimated at 20,000 to 50,000 (no accurate data available) is that they provide the only effective means of putting up-to-date information into the hands of the doctors. Without them, presumably, it would take doctors six months to a year or more to obtain information from the medical journals on clinically tested effects and reactions of new drugs. On the other hand, some skeptical observers question both the validity of the information provided in this way and the need for extreme haste in getting new drugs into use.

Under these circumstances, even the doctor may be confused. One doctor, recently asked about the effectiveness of his prescription, replied: "There is really no way of determining it at the present time. But if it only does half the good they claim, it is worth using." His use of it without controls could hardly establish its value.

The Hospital

The most extreme effect on the cost of medical care comes not from the doctors or drug makers but from the hospitals and health insurance plans. The latter contribute in part by increasing the demand for the former.

(Continued on page 8)

THE TANNING INDUSTRY

Much of the early tanning in this country was crudely done within the family. As settlements expanded, however, the demand and need for community tanners increased. The commercial tanning industry quickly became one of the country's leading industries, chiefly because of (1) the widely accepted use of leather in apparel and for harnesses for animals, (2) the abundant supply of hides and tanbark in this country, and (3) the prohibitively high cost of imported European leathers and textiles.

When tanning extracts and concentrates were developed in the latter part of the nineteenth century, the industry underwent a revolutionary change. New emphasis was placed on locating near supplies of hides and skins rather than near tanbark supplies, and output was expanded by mechanization. Tanneries grew larger and a rapid integration and abandonment of plants ensued which reduced the number of establishments from 6,640 in 1850 to 1,300 by 1899, while the value of shipments rose from $42 million to $204 million. In the present century, the industry has experienced extreme expansions during and just after both world wars, followed by production declines. For example, the industry's value added by manufacture fell from $404 million to $294 million between 1947 and 1957.

Current Condition of the Industry

Despite the integration referred to above, the average plant today is relatively small. Nearly 98 percent of all tanneries employ fewer than 500 workers and these plants account for more than 80 percent of the industry work force. The majority of tanneries are independent units, although some of the large meat packers own tanneries, as do some of the larger shoe producers which manufacture part of their leather requirements.

The industry has two major kinds of leather processing establishments, the regular and the "contract" tanneries. The former, which are the largest producers of leathers, buy hides and skins for manufacture and sale as processed leather, whereas contract tanneries specialize only in the making of leather. A third type of establishment, the "leather converters," function much the same as regular tanneries but do not maintain processing plants; most of their work is done by contract tanneries.

Because of its early establishment and growth in the eastern section of the United States, the tanning industry today is concentrated in that area. More than 380 of the estimated 500 establishments producing leather in their own plants (excluding "converters") are in the New England and Middle Atlantic states. The only other area of significant production is in the Midwest, where Illinois and Wisconsin together have more than half of the remaining processing plants.

Some Industry Problems

Probably the industry's most important problem is the continuing long-term decline in consumption of leather, particularly sole leather, which began about 1920. The major causes for this decline have been the changes in fashion and social habits and the development of new, more economical substitutes, such as plastics and synthetics. The greatest gain by the newer substitutes has been made in the shoe industry, which uses about 82 percent of all tannery products. Other leather products, such as luggage, gloves, upholstery, and industrial leathers, also have yielded somewhat to substitutes.

Although larger plants have been able to mechanize to some extent, the industry is not easily adapted to automation, a factor which has hindered its general competitive position as compared with cheaper substitutes. Moreover, this factor, combined with the long-term decline in the popularity of leather goods, has proved a general deterrent to replacement of older equipment by medium-sized and smaller establishments.

Inventories are a perplexing problem for the average tannery, although these vary according to tanning materials and the type of leather produced. Large inventories are necessitated by the long processing period required. This problem is further complicated by the shifting values of inventories during the tanning period, stemming from erratic price fluctuations for hides and skins. Thus, the long processing time and general price instability of raw materials tend to force the average tanner into a speculative position.

Tanning in Illinois

Although leather tanning is not a large industry in the State today, Illinois was sixth nationally in 1957 with shipments estimated at more than $42 million. This total was greater than that of any other state west of Pennsylvania, except Wisconsin. The majority of tanneries in the State specialize in producing leather from cattle and calf hides. This source made up more than two-thirds of total shipments in 1957.

Between 1947 and 1957 the value of shipments in Illinois dropped nearly 44 percent and during the same period total employment shrank nearly a third. Shifts in the packing industry from Illinois played a part in this decline, and the rest resulted from the factors mentioned earlier which affect the industry as a whole.

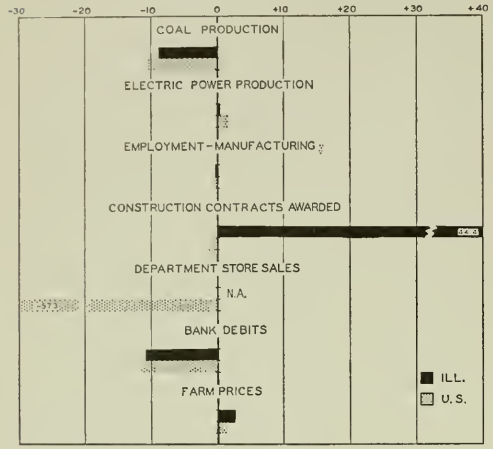
Today, almost all of the Illinois tanning takes place within the Chicago area. Only one of the estimated 25 establishments in the State is located downstate, the large Wood River Tannery owned by International Shoe Company in Madison County. The dominant position of Chicago results from the fact that the city is near the supply of hides and skins sold by the meat-packing and slaughter houses and to the state's largest market for leather goods manufacturers.

Although about half of the plants in the State have fewer than 20 employees, a number of large firms, by industry standards, are found in Illinois. The largest is the Griess-Pfleger Tanning Company of Waukegan, which is among the nation's leading tanning firms. Other important firms, all of which are in Chicago, include Guttmann and Company, Hoffman-Stafford Tanning Company, Horween Leather, and Superior Tanning. In general, most of these companies specialize in certain types of leathers.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes December, 1959, to January, 1960



n.a. Not available.

ILLINOIS BUSINESS INDEXES

Item	Jan. 1960 (1947-49 =100)	Percentage change from Dec. 1959	Percentage change from Jan. 1959
Electric power[1]	253.2	+ 0.3	+ 3.8
Coal production[2]	85.0	− 8.9	− 4.2
Employment—manufacturing[3]	102.6[a]	− 0.4	+ 4.8
Weekly earnings—manufacturing[3]	172.9[a, b]	+ 3.6	+ 5.3
Dept. store sales in Chicago[4]	120.0[a]	− 4.0	+ 6.2
Consumer prices in Chicago[5]	128.9	− 0.1	+ 1.4
Construction contracts[6]	258.1	+44.4	+14.5
Bank debits[7]	208.7	−10.8	+ 4.8
Farm prices[8]	76.0	+ 2.7	− 8.4
Life insurance sales (ordinary)[9]	237.2	−31.7	− 8.0
Petroleum production[10]	120.2	− 3.2	+ 2.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Revised series. [b] Data are for December, 1959; comparisons relate to November, 1959, and December, 1958. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Jan. 1960	Percentage change from Dec. 1959	Percentage change from Jan. 1959
	Annual rate in billion $		
Personal income[1]	393.3[a]	+ 0.3	+ 6.6
Manufacturing[1]			
Sales	369.6[a]	0.0	0.0
Inventories	53.2[a, b]	+ 1.7	+ 1.5
New construction activity[1]			
Private residential	18.0	−12.6	+ 2.0
Private nonresidential	14.8	− 8.0	+11.3
Total public	11.8	− 3.1	−13.1
Foreign trade[1]			
Merchandise exports	20.1[c]	+13.2	+10.6
Merchandise imports	17.7[c]	+15.2	+17.9
Excess of exports	2.4[c]	+ 0.7	−24.4
Consumer credit outstanding[2]			
Total credit	51.4[b]	− 1.3	+15.6
Instalment credit	39.4[b]	− 0.3	+16.6
Business loans[2]	34.5[b]	− 3.2	n.a.
Cash farm income[3]	38.7[c]	−11.8	+10.7
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	112[a, d]	+ 2.8	+12.0
Durable manufactures	112[a, d]	+ 5.8	+16.7
Nondurable manufactures	113[a, d]	0.0	+ 7.6
Minerals	97[a, d]	− 1.0	0.0
Manufacturing employment[4]			
Production workers	101	+ 0.6	+ 4.8
Factory worker earnings[4]			
Average hours worked	101	+ 0.2	+ 1.3
Average hourly earnings	172	+ 0.9	+ 4.6
Average weekly earnings	175	+ 0.6	+ 5.9
Construction contracts[5]	193	− 1.4	− 5.4
Department store sales[2]	146[a]	− 1.4	+ 5.8
Consumer price index[4]	125	− 0.1	+ 1.3
Wholesale prices[4]			
All commodities	119	+ 0.3	− 0.2
Farm products	86	+ 0.7	− 5.5
Foods	106	+ 0.8	− 2.9
Other	128	+ 0.2	+ 1.0
Farm prices[3]			
Received by farmers	85	+ 1.2	− 5.6
Paid by farmers	120	+ 0.8	+ 0.8
Parity ratio	77[c]	0.0	− 6.1

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Data are for December, 1959; comparisons relate to November, 1959, and December, 1958. [d] 1957 = 100. [e] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960					1959
	Feb. 27	Feb. 20	Feb. 13	Feb. 6	Jan. 30	Feb. 28
Production:						
Bituminous coal (daily avg.)...thous. of short tons..	1,386	1,233	1,382	1,412	1,487	1,425
Electric power by utilities...mil. of kw-hr.....	14,092	14,226	14,071	14,097	14,313	12,972
Motor vehicles (Wards)...number in thous....	185	190	183	193	206	153
Petroleum (daily avg.)...thous. bbl.....	7,318	7,312	7,256	7,293	7,136	7,199
Steel...1947-49 = 100.....	156	155	156	156	158	145
Freight carloadings...thous. of cars.....	553	572	580	588	602	576
Department store sales...1947-49 = 100.....	110	107	115	111	111	118
Commodity prices, wholesale:						
All commodities...1947-49 = 100.....	119.3	119.2	119.2	119.2	119.5	119.5[a]
Other than farm products and foods..1947-49 = 100.....	128.6	128.6	128.6	128.6	128.6	127.8[a]
22 commodities...1947-49 = 100.....	83.3	84.3	84.6	84.6	85.2	84.2
Finance:						
Business loans...mil. of dol.....	30,186	30,278	30,063	29,957	29,862	n.a.
Failures, industrial and commercial...number.....	277	289	317	318	281	296

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for February, 1959. n.a. Not available.

RECENT ECONOMIC CHANGES

Farm Income

Net farm income, including government payments and the change in farm inventories, fell sharply in 1959 to $11.8 billion, a decline of almost 17 percent from the $14.2 billion of the previous year. Increased production expenses coupled with declining average prices more than offset record high marketing of both livestock and crops during the year. Excluding the inventory adjustment, realized net income of farm operators was down 16 percent, from $13.1 billion in 1958 to $11.0 billion last year. Average realized net income per farm was down in all but seven states, with Maine showing the largest decline of 52 percent. For the nation, average farm income fell 14.5 percent to $2,364 per farm.

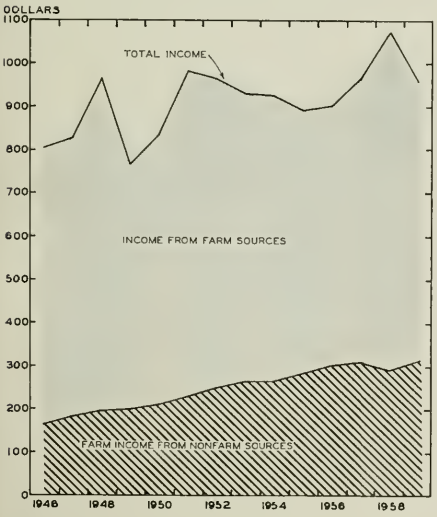
The decline in farm income was moderated somewhat by supplemental income earned by farmers in nonfarm jobs. This source of income has been rising steadily since the war, both absolutely and relatively (see chart). In 1946, on a per capita basis, income of the farm population from nonagricultural sources amounted to $162 per person, or 20 percent of income from all sources. Last year income earned off the farm rose to $317 per person, or 33 percent of the total per capita income of the farm population. On the other hand, average income from farming in 1959 was $643, virtually the same as in 1946.

Total farm income from all sources averaged about $960 per capita last year, compared with the nonfarm population income of $2,202 per person and an average for the whole population, farm and nonfarm, of $2,054.

Gross National Product

The nation's output of goods and services regained most of the third-quarter decline during the final three months of 1959. Fourth-quarter GNP rose to a seasonally adjusted annual rate of $483.5 billion, just under the peak rate of $484.8 billion reached in the second quarter. The increase over the third-period rate amounted to almost $5 billion. The over-all advance was accounted for entirely by increases in consumer expenditures for nondurable goods and services and in business inventory investment.

PER CAPITA NET FARM INCOME



Source: U. S. Department of Agriculture.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Billions of dollars)

	1959	1958	4th Qtr. 1959*
Gross national product	479.5	441.7	483.5
Personal consumption	311.6	293.0	317.0
Durable goods	43.0	37.6	42.8
Nondurable goods	147.9	141.9	150.1
Services	120.7	113.4	124.1
Domestic investment	71.1	54.9	69.7
New construction	40.2	35.8	39.2
Producers' durable equipment	26.1	22.9	27.5
Change in business inventories	4.8	−3.8	3.0
Nonfarm inventories only	3.9	−4.9	2.3
Foreign investment	−.8	1.2	−.6
Government purchases	97.6	92.6	97.4
INCOME AND SAVINGS			
National income	398.5	366.2	n.a.
Personal income	380.2	359.0	386.8
Disposable personal income	334.6	316.5	340.8
Personal saving	23.1	23.5	23.7

* Seasonally adjusted at annual rates.

For the year as a whole, GNP moved up almost $38 billion to a record high of $479.5 billion. Consumer expenditures accounted for over $18 billion of the increase. Investment in producers' durable goods and new construction added another $7 billion, while the shift from inventory liquidation in 1958 to accumulation in 1959 accounted for more than $8 billion. Foreign investment was the only major sector in which outlays declined during the year.

Industrial Production

The spurt of activity following the steel strike settlement carried the Federal Reserve Board's index of industrial production to a new high during the first month of 1960. The seasonally adjusted index in January reached 169 percent of the 1947-49 average, a gain of 4 points over December. Although the 3 percent increase in January put the index 3 points above the former record of 166 percent established in May and June of last year, it represented a tapering off from the 6 percent jump recorded in December.

Leading the January advance in output was a record level of automobile production. Auto assemblies during the month rose to 134 percent of the average for 1957, compared with 87 percent in the previous month. In February, however, car production declined 4 percent.

Unemployment

The number of jobless in February declined 218,000, whereas employment rose 500,000. These changes resulted in the lowest seasonally adjusted rate in 28 months.

Labor Department data, in thousands of workers, are as follows:

	Feb. 1960	Jan. 1960	Feb. 1959
Civilian labor force	68,451	68,168	67,471
Employment	64,520	64,020	62,722
Agricultural	4,619	4,611	4,692
Nonagricultural	59,901	59,409	58,030
Unemployment	3,931	4,149	4,749
Seasonally adjusted rate	4.8	5.2	5.9

INVESTMENT OPPORTUNITIES IN THE BOND MARKET

ROBERT W. MAYER, Professor of Finance

Since the spring of 1958 an almost continuous downward movement of bond prices has produced a situation of considerable interest to investors.

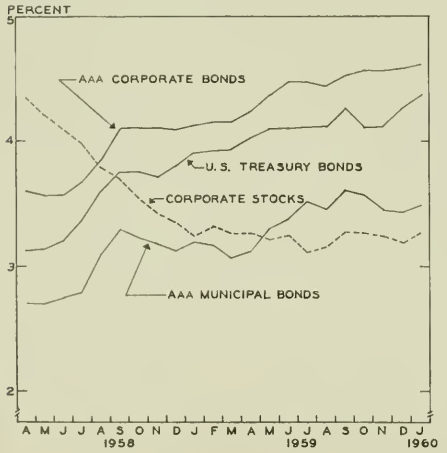
To those investors whose policy it is to maintain some kind of balance between defensive and aggressive securities in their portfolios, the high yields now earned by top-quality bonds afford very real attraction. Such investors — who often follow the formula-plan principle of shifting their holdings toward defensive securities when stock prices rise to heights beyond any reasonable discounting of expected earnings and dividends — could hardly expect to find better opportunities than at present. Even the sharp decline of stock prices in the first two months of 1960 has not significantly changed the picture.

Bond Yields versus Stock Yields

What is the picture? Chart 1 shows how much the yields on investment-grade bonds have risen (in reflection of their price declines) since the spring of 1958, and how sharp has become the disparity from the "normal" relationship between bond yields and current dividend yields on stocks. This is not to suggest that conditions are ripe for speculative bond trading in anticipation of an early and sharp price rise. Speculative bond trading can be fully as hazardous as speculative stock trading.

Besides, some qualified observers believe that 1960 may bring an even further decline of bond prices. The business outlook, they feel, although not so optimistic as at the beginning of the year, is still favorable enough to warrant expecting that business firms will continue raising a good deal of new money. Moreover, the federal government, even in the unlikely event that it achieves a balanced budget, will still have to come into the market for large sums to meet its debt maturities. On the supply side, persistent inflationary psychology will inhibit the amount of new money which small and medium income savers bring to the bond market. Under these circumstances, so the argument goes, the Federal Reserve is unlikely to change its policy of nonsupport of government bond prices. The total effect, especially when augmented by the inflationary effects of the approaching elections in this country and of the developing economic boom abroad, would make any substantial upward movement of bond prices during 1960 unlikely.

CHART 1. BOND AND STOCK YIELDS



Even if immediate prospects do not favor *speculation* in bonds, however, the country's history and politics argue against indefinite continuance of today's high yields and suggest that *investment* in carefully selected bonds for long-term productivity may be well worth considering. Selection of bonds for investment is a highly technical matter calling for analysis of quantitative and qualitative evidence bearing upon the position and prospects of both issuer and security. Grade rating by reliable financial services may relieve the investor of some of this work; but it cannot relieve him of the necessity to analyze and assess his own investment requirements — to recognize that qualities which may be valuable to other investors may be worthless (or worse) to him, to recognize, in short, that in investment one man's meat may be another man's poison.

Even mere enumeration of attractions and hazards which various types of bonds may hold for various types of investors is beyond the scope of a short article. Three aspects of today's situation, however, bear especially interesting comparison (or contrast) with their counterparts in earlier eras of bond investment popularity.

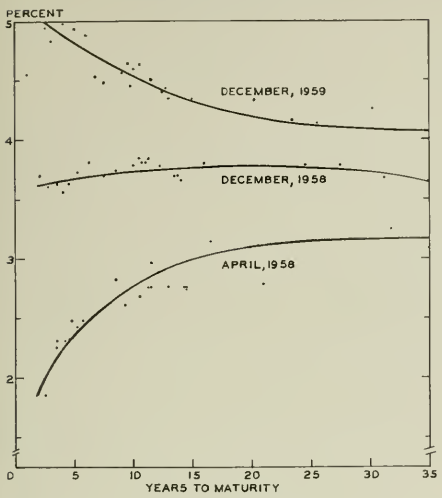
Rise in Yields on Short Maturities

One striking consequence of the rise of yields has been a marked change in the pattern of federal government bond yields. (See Chart 2.) Yields have risen all along the line, but the rise has been greater in the short maturities than in the long — so much so that yields on the shorts are actually higher than those on the longs. This condition is by no means novel, but it has not obtained for many years. Indeed, the yields on government securities had been held artificially low by Federal Reserve support for so long a time that a classical principle has been almost forgotten: when the general level of interest rates is low, the short-term rates tend to be lower than the long-term rates; when the general level of rates is high, the short-term rates tend to be higher than the long-term rates.

When borrowers consider the general level to be low (that is, when they expect it to be higher in the future), they naturally wish to secure the benefit of the favorable rates over as long a period as possible, so they bid up the price of long-term funds and exert relatively little demand for short-term funds. Lenders, in such circumstances, wish to avoid committing their funds any longer than necessary at rates unfavorable to themselves, so they offer more funds at short than at long term, thus depressing the price of the former. When the general level of interest rates is considered high (that is, when it is expected to be lower in the future), the attitudes of both borrowers and lenders are reversed: borrowers bid up the price of short-term funds relative to that of long-term funds, and lenders depress the price of long-term funds relative to that of short-term funds.

The moral for the investor is that under present market conditions he must not take for granted, as he has been able to do for a good many years, that the longer the term for which he is willing to commit his funds, the

CHART 2. YIELD-MATURITY PATTERNS OF TREASURY BONDS



higher the yield he can count upon. On the contrary, he must use care to secure his optimum combination of yield and maturity.

Advantages of Tax Exempts

As a second consequence of the bond price decline, some investors have awakened to the realization that they need not necessarily be millionaires to appreciate the tax-exempt feature of municipal bonds. The large increase of tax rates on personal income during World War II made exemption so attractive to wealthy investors that it became almost a tradition to consider that they would bid up the prices of municipal bonds beyond the reach of the moderate-income investor. For many years yields on the order of 2 percent were characteristic, and such a return was far from sufficient to attract investors in the medium income brackets.

The current situation prompts reconsideration of this attitude. Today, even the highest-grade (Aaa) municipal bonds can be purchased to yield 3½ percent. As indicated by Chart 3, the taxable yield equivalent of such a tax-exempt yield is 5 percent if the investor's taxable income is $6,000-$8,000 and 8½ percent if it reaches into the $22,000-$24,000 bracket. Indeed, even higher yields can be secured without very great sacrifice of safety. Prices of top-quality bonds are bid up somewhat artificially by certain types of institutional investors which are legally restricted to such securities for their portfolios. The ordinary investor, by going down to Aa or A grade municipal bonds (he probably should go no further), can materially improve his yield.

The types of securities in this category are quite varied. Ordinarily the individual investor is wise to refrain from tying up much capital in the bonds of small cities, school districts, and the like, because of their lack of marketability. There are plenty of larger governmental units, however, whose credit is both strong and nationally known, and their securities therefore enjoy entirely adequate secondary liquidity. Bonds such as those the State of Illinois would use to finance the construction of urgently needed educational and welfare buildings (assuming the electorate approves their issue in the autumn elections) would be of this type and should be attractive to investors throughout the nation.

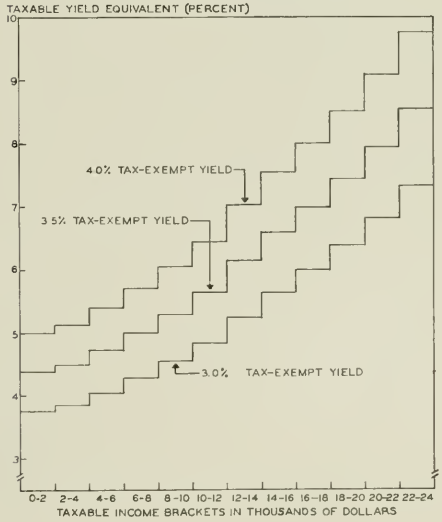
Even revenue bonds, long looked at askance by the conservative investor, can appropriately form a part of the ordinary investor's portfolio if he takes the trouble to assure himself that the revenue source is really reliable. The bonds utilized by the University of Illinois to finance construction of dormitories are of this type because there is already a shortage of university-owned housing, and the coming years will bring a large and permanent increase of the university's enrollment.

A Second Look at Convertibles

A third consequence of the bond price decline has been a certain amount of disillusionment about the investment qualities of convertible industrial and public utility bonds. The popularity of these securities during the 1950's has been based on their "eat your cake and have it too" nature. Many investors have been intrigued by the notion that convertibles offer a hedge against both inflation and deflation: If inflation continues, the stock will carry the bond price up with it and produce a handsome capital gain; if deflation sets in, the bond price will not fall below its "yield value floor," and the interest income, fixed in dollars, will enjoy an increase of purchasing power. The 1958-59 descent of bond prices shows that in some circumstances the "yield value floor" may not be very firm, and that if the stock sells at too low a level to provide speculative support, the holder may be sadly disappointed about that side of his hedge. Such circumstances had not cropped up for years, to be sure, and many investors apparently forgot that they ever could.

Investors need not eschew convertible bonds entirely, however, just because they have proved to be no panacea for investment problems. What is needed in their selection is proper attention to certain well-established precepts. In the first place, the investor should avoid being lulled by the generally defensive character of the security

CHART 3. TAXABLE YIELD EQUIVALENTS OF TAX-EXEMPT YIELDS



into considering it unnecessary to investigate the merits of the stock as a stock. At the same time he should avoid being lulled by the generally aggressive character of the conversion feature into considering it unnecessary to investigate the merits of the bond as a bond. More specifically, the investor may be well advised to refrain from paying a price substantially in excess of the bond's yield value — that is, the prevailing price for non-convertible bonds which are otherwise similar in characteristics. If he does, he is buying, to the extent of the excess, not bond but stock.

Another point — "obvious" but often ignored — is that he should avoid paying a price in excess of (or even very close to) the call price, especially if the stock is selling below conversion parity. The call price usually constitutes an effective ceiling or limit to appreciation. It is also desirable to avoid — or at least to view with skepticism — bonds which are convertible at prices that are graduated upward with the passage of time. All too often the upward march of the conversion price stays just enough ahead of the market price of the stock to prevent the latter from ever having any substantial effect on the market value of the bond.

Finally, but not least important, the interest requirements on the bond — plus interest on any other long-term debt — should absorb no more than a fourth or a third of normal net income. This may appear to be a counsel of extreme conservatism, but the bond investor who disregards it should blame no one but himself if a setback of the company's fortunes threatens default of interest and drops the bond both in grade and in price.

The probabilities are very great that financial historians looking back from the vantage of 1980 will say that early 1960 was an unusually high interest period. Investors who take the trouble to look carefully about them today for some of the unusually favorable opportunities for bond investment can add to their portfolios both productivity and defensive strength which may prove invaluable in the years to come.

High Cost of Medical Care

(Continued from page 2)

The number of hospital beds increased by over 10 percent between 1948 and 1958 but the ratio dropped from 9.7 to 9.1 per 1,000 population. Furthermore, the rate of utilization rose from 115 to 137 admissions annually per 1,000 population. Under the impact of rising demand, hospital rates have soared more than 110 percent from 1947-49.

What has saved the situation somewhat is that the average patient stay in general short-term hospitals fell by about 15 percent during the same period. The use of new drugs has enabled sending some patients home more quickly, for example, maternity cases, and early diagnosis has speeded the treatment of others.

The complexity of medicine that has led to group practice centered on a hospital or well-equipped clinic has also made it necessary to pay high rates. Hospitals generally charge rates to cover costs; hospital expense per patient-day rose from $14.06 in 1948 to $29.24 in 1958; of this, payroll per patient-day accounted for $7.57 in 1948 and $17.71 in 1958.

At work here have been the same factors that increased auxiliary and hence total costs in industry generally. Each hospital wants a complement of up-to-date equipment and laboratory facilities that is very expensive. Each piece of equipment needs trained operators to make it useful. The operator's salary tends to be the larger and more enduring part of the cost of the services provided. Where such equipment and skills are needed for only a small proportion of all patients, the costs per patient-day are very high indeed. There is, in addition, a tendency to use the equipment in cases of doubtful need as partial justification for having it available.

Health Insurance

Abetting the upward movement in medical costs are the financial arrangements provided by health insurance plans. These vary greatly in character. Some are organized by insurance companies; others are organized by hospital or medical associations. Some are open to anyone who wants to sign up, others only to company employees or a labor union, perhaps leaving the individual no choice about participating. Some offer relatively complete coverage of medical expenses, others are limited in coverage, mostly focusing on costs of surgery and hospitalization. Over 70 percent of the people are covered by one kind of plan or another. Benefit payments cover about a quarter of all private medical care bills.

All these plans offer the attraction of "easy payments." However, the slogan, "Join now to beat the high cost of medical care!" is illogical, because total charges have to cover not only medical costs but also the expenses of operating the program. In 1958, insurance benefits were $3.7 billion; expenses for prepayment were $645 million, or a sixth of benefits. The upward trend in hospitalization insurance premiums has been even sharper than in hospital rates; since 1951, when first included in the consumer price index, the increase has been almost 90 percent.

For the individual, these plans do offer, on an alternative cost basis, relief from going into debt to cover large unforeseen medical expenses. For the hospital and doctor, they provide an assured collection system guaranteeing payment of their bills and a means of avoiding "socialized medicine." Both forms of protection fade away when the unemployed cannot keep up the premiums.

Since there is laxity when direct financial responsibility is missing, the programs are subject to abuse. Consumers feel free to ask for more medical service. Doctors and hospitals are inclined to provide services they might otherwise not consider necessary. Recently, for example, a patient was sent to the hospital for a minor scalp operation that might have been done in the doctor's office — in order to "get the benefit of his group insurance." The one-day hospital bill was $96. He demanded and received an itemized statement, which he took to his insurance representative with a remark about the size of the bill. He was told, "What do you care? You're not paying it!"

Certainly the rise in group hospitalization costs is based not alone on rising prepayments costs but also on increased hospital utilization. The average admission rate of 14 per 100 insured persons per year is half again as high as the 9 per 100 rate for uninsured persons, though part of this difference is no doubt due to age and other differences between the two groups.

We may well agree with Markley Roberts' over-all summary: "Medical care is becoming wonderfully effective and appallingly expensive." Much will no doubt continue to be done in promoting the first of these conditions. The second also seems likely to prevail. A complex of interlocking elements makes it practically impossible to separate the technically necessary from the profitably wasteful; and any attempt to attack this problem from the demand side would involve creation of an intolerably high level of unemployment. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Soil Bank Deposits

According to the United States Department of Agriculture, an estimated 28 million acres of the nation's cropland has been deposited in the Soil Bank. This means that about 5 percent of the nation's cropland will be out of production in 1960. Nearly two-thirds of the farmers in the program deposited their entire farms, a total of 15 million acres, for which they will receive an average annual rental payment of $11.53 per acre.

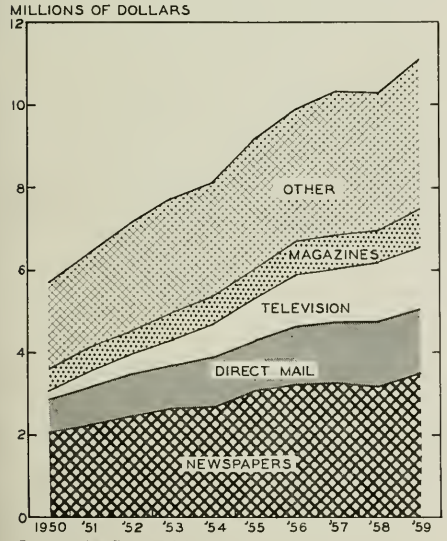
Of the 48 states participating in the program, only seven have deposited over a million acres. Most of these states are large producers of wheat. Three states, Utah, New Mexico, and Colorado, have over 10 percent of their cropland in the Soil Bank. In contrast, Nevada and Arizona have less than 1 percent of their cropland deposited. Illinois has about 345,000 acres in the program, or 1.5 percent of its total cropland, compared with 1.9 percent in Iowa, 2.6 percent in Indiana, and 2.7 percent in Ohio.

Consumer-Product Rating Publications

The University of Illinois Bureau of Economic and Business Research has released a study by Hugh W. Sargent entitled *Consumer-Product Rating Publications and Buying Behavior* (80 pages, $1.50). The objective of the study was to ascertain what influence the *Consumer Research Bulletin* and *Consumer Reports* have upon consumer buying.

The results of the study indicate that the published brand ratings do have an influence upon the buying patterns of households which refer to them, particularly for major purchases. It was also found that those who consulted one or both of the magazines considered additional factors before making a purchase, especially past experience with a brand or manufacturer and the possible price discount or "deal." The survey indicated further that the subscribing and consulting households were above average in their income and educational attainments.

ADVERTISING EXPENDITURES, 1950-59



Source: McCann-Erickson, Inc., *Printers' Ink.*

Largest Manufacturers

The February, 1960, issue of *Business Record* gives a complete listing of the 300 largest manufacturing corporations in the nation. The report gives the total assets of each of the 300 firms and provides additional financial data for the leading 200 corporations. The 1958 ranking according to assets was led for the third consecutive year by the Standard Oil Company of New Jersey, followed by General Motors and United States Steel. Fourteen new names entered the ranks of the top 300 manufacturers; these new listings were from such industries as food, chemicals, aircraft, and machinery.

Among the industries represented in the list of the leading 300 corporations, the food, beverages, and tobacco industry had the largest number of firms represented with 41; however, it held only 8.0 percent of the group's total assets. The chemicals and allied equipment industry was second with 37 companies listed and 9.8 percent of total assets. Although the steel and petroleum industries ranked third and fourth in the number of firms listed, they held the largest proportion of total assets with 12.1 percent and 26.7 percent respectively.

More than 70 percent — 145 companies — of the first 200 corporations reported increased assets in 1958, resulting in a total of nearly $130 billion for the entire group. This was a gain of $4.8 billion over the 1957 total. Eleven companies among the top fifty experienced a reduction in their total assets during 1958, compared with three companies in the previous period. Among the top 200 manufacturers, assets ranged from an all-time high of $9.5 billion to a low of $157 million.

Advertising Expenditures

During the past decade, American industry spent a total of $86 billion in advertising its goods and services, according to estimates released recently by *Printers' Ink*. Advertising outlays rose continuously, with the exception of 1958, from $5.7 billion in 1950 to $11.1 billion in 1959, an increase of 95 percent.

As is shown in the accompanying chart, the most striking feature of the rising advertising outlays during the fifties was the emergence of television as an important advertising medium. Advertising expenditures for television programing amounted to about $170 million in 1950, or 3 percent of the total advertising volume, as compared with $1.5 billion, or 14 percent of total advertising expenditures, in 1959.

Newspapers are still the leading advertising medium, with expenditures rising from $2.1 billion in 1950 to $3.5 billion in 1959. However, their proportion of total advertising outlays declined from 36 percent in 1950 to 32 percent in 1959. Television, business papers, and direct mail have increased in relative importance since 1950.

Among the manufacturing and retail trade industries, advertising costs averaged 1.4 cents per dollar of sales. The advertising sales-ratio ranged from 5.2 percent for tobacco companies to 0.2 percent for transportation equipment manufacturers. Furniture stores were highest in retail trade, with a ratio of 3.3 percent.

LOCAL ILLINOIS DEVELOPMENTS

In January the major indexes of Illinois business showed diverse movements. Construction contracts jumped 44 percent and farm prices rose 3 percent above the previous month. The sharpest decline was in life insurance sales, which dropped 32 percent.

Illinois Tollways

According to the Illinois State Tollway Commission, the net revenue from the operation of the 187-mile Illinois Tollway in 1959 amounted to $10.2 million. Gross revenue was nearly $15.0 million, with $14.5 million coming from passenger cars and commercial vehicles and $414,000 from concessions and other services. Daily toll revenues averaged nearly $41,000 during the year, ranging from a low of $10,000 to a high of $82,000.

The Tollway Commission announced that toll collections so far this year are up substantially from last year at this time. Net revenue for the month of January amounted to $674,000, compared with $197,000 in January a year ago.

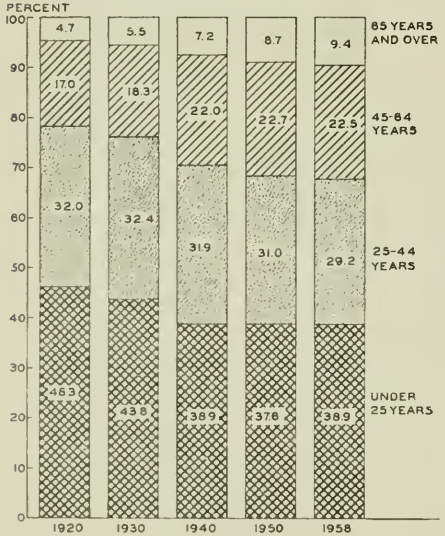
The commission plans to have three additional oases constructed. These are scheduled to be in operation in 1961 and will supplement the five oases now in operation. Each of the new oases will consist of an "over-the-tollway" restaurant and twin service stations. In recent months three major sections of new access expressway connections to the tollway were opened to traffic. These connect the tollway with Interstate 94, Interstate 90, and the Northwest Expressway.

Illinois Farms

Among the most important changes which have taken place in Illinois agriculture during the past twenty years are the pronounced increase in the size of farms and the accompanying decrease in the number of farms. The 1959 Farm Census conducted by the Illinois Cooperative Crop Reporting Service shows that the average farm in Illinois has 185 acres, almost 40 acres more than in 1939. This increase has required extensive mechanization and continual increases in capacity of equipment on the farms.

The number of Illinois farms dropped from 213,000 in 1939 to 165,000 in 1959, a decrease of 22 percent. The decline was largely due to consolidation of farms and to a lesser extent to the reduction in total farm land. Since 1939 the total farm land in the State has decreased from 31.0 million acres to 30.7 million acres. Urban development and new highways have taken the greater part of this 300,000 acres. As would be expected, the areas adjacent to large metropolitan communities have been the most affected. For example, the total farm acreage in Cook County has decreased from 230,000 in 1939 to 158,000 in 1959, a decline of 31 percent.

POPULATION DISTRIBUTION BY AGE, SELECTED YEARS



Source: Illinois Department of Public Health, *Vital Statistics Illinois 1958*, p. 1.

Planning Commission's Reports

The Sangamon County Regional Planning Commission has published four reports presenting a comprehensive long-range regional plan for the development of Sangamon County. The four reports are entitled *Economic Potentials, Land Use Plan, Circulation Plan,* and *School and Park Plan.*

The report on economic potentials reviews the economic resources and facilities characteristic of the area and recommends ways to promote their development. In the second report the commission outlines major proposals for better utilization of land. The third report answers questions about what needs to be done to maintain and improve the highway and rail transportation system within the region. The fourth report presents a survey of past and existing conditions of schools and recreation facilities in the county and evaluates them in relation to future needs.

These reports are available for $1.50 each or $5.00 for the set from the Sangamon County Regional Planning Commission, 617 East Jefferson, Springfield, Illinois.

Distribution of Population

Data released recently by the Illinois Department of Public Health indicate that the population of Illinois has been undergoing a number of significant changes during the past few decades. The emigration of young people from farming areas to industrial centers has resulted in a declining birth rate and a rising death rate in several counties.

Another change is the increased proportion of nonwhites in the Illinois population. As of July, 1958, there were an estimated 9.9 million people in the State, of whom 90.7 percent were white and 9.3 percent nonwhite. The nonwhite proportion of total population was 7.6 percent in 1950 and 2.9 percent in 1920.

Since 1920 the age distribution of the population of Illinois has changed appreciably (see chart). Persons under 25 years of age accounted for 46.3 percent of total population in 1920, 37.6 percent in 1950, and 38.9 percent in 1958. The proportion of those in the 25-to-44 age group has declined from 32.0 percent in 1920 to 29.2 percent in 1958, whereas those 45 to 64 years of age have increased from 17.0 percent in 1920 to 22.5 percent in 1958. The proportion of people in the advanced years, 65 years and over, has doubled since 1920, rising from 4.7 percent to 9.4 percent.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1960

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$22,561[a]	1,320,260[a]	$695,025[a]		$18,243[a]	$18,184[a]
Percentage change from Dec., 1959	−6.3	+2.2	+23.7	−56	−10.8	−11.7
Percentage change from Jan., 1959	+43.1	+4.3	−0.5	+2	+4.8	+2.7
NORTHERN ILLINOIS						
Chicago	$14,165	974,698	$506,770		$16,771	$15,264
Percentage change from Dec., 1959	−20.3	+1.7	+24.0	−55	−11.1	−14.5
Percentage change from Jan., 1959	+34.0	+4.1	+0.1	+2	+5.1	+2.0
Aurora	$ 201	n.a.	$11,609		$ 82	$ 175
Percentage change from Dec., 1959	−84.9		+20.9	−57	−5.1	−7.1
Percentage change from Jan., 1959	−63.5		+2.4	+5	+12.0	+1.3
Elgin	$1,041	n.a.	$ 7,829		$ 50	$ 150
Percentage change from Dec., 1959	+439.4		+12.1	n.a.	−5.6	−0.7
Percentage change from Jan., 1959	+131.8		−6.3		+3.0	+24.3
Joliet	$ 341	n.a.	$14,265		$ 95	$ 167
Percentage change from Dec., 1959	+49.6		+36.7	−59	−3.6	+17.9
Percentage change from Jan., 1959	+34.3		+3.9	+7	+0.4	+6.8
Kankakee	$ 54	n.a.	$ 6,360		n.a.	$ 75
Percentage change from Dec., 1959	−67.5		+23.7	n.a.		−0.3
Percentage change from Jan., 1959	−79.3		−6.8			+4.3
Rock Island-Moline	$ 772	30,292	$14,159		$ 120[b]	$ 204
Percentage change from Dec., 1959	−25.2	+4.5	+17.3	n.a.	−5.9	−7.7
Percentage change from Jan., 1959	+47.0	+12.4	+5.8		+8.8	−0.4
Rockford	$ 558	57,600[c]	$23,394		$ 206	$ 337
Percentage change from Dec., 1959	−35.1	+9.3	+25.7	−62[c]	−6.6	+9.7
Percentage change from Jan., 1959	−4.5	+10.2	−2.3	+3[c]	+7.4	+6.2
CENTRAL ILLINOIS						
Bloomington	$ 141	11,321	$ 6,812		$ 74	$ 124
Percentage change from Dec., 1959	−28.1	+4.3	+23.4	n.a.	−6.3	+0.2
Percentage change from Jan., 1959	+95.8	+17.6	−5.0		+5.6	+18.1
Champaign-Urbana	$ 145	15,375	$ 9,818		$ 80	$ 162
Percentage change from Dec., 1959	−4.6	−2.0	+16.6	n.a.	−3.6	+14.7
Percentage change from Jan., 1959	−44.9	+5.5	−4.2		−9.8	+5.2
Danville	$3,229	14,173	$ 7,815		$ 54	$ 92
Percentage change from Dec., 1959	+2,364.9	+1.5	+32.0	−64	+3.8	+1.8
Percentage change from Jan., 1959	+1,599.5	−1.3	−4.1	−7	−2.3	−8.7
Decatur	$ 333	35,883	$13,839		$ 117	$ 180
Percentage change from Dec., 1959	−52.5	−1.4	+21.6	−61[c]	−5.9	+15.6
Percentage change from Jan., 1959	+1.8	−1.3	−6.2	−4[c]	−2.7	+0.5
Galesburg	$ 12	10,239	$ 5,734		n.a.	$ 67
Percentage change from Dec., 1959	−91.1	+6.3	+27.2	n.a.		+14.5
Percentage change from Jan., 1959	+140.0	−3.2	−3.3			+7.1
Peoria	$ 209	62,559[c]	$22,102		$ 224	$ 423
Percentage change from Dec., 1959	−52.1	+2.4	+23.4	−62	−12.0	−3.4
Percentage change from Jan., 1959	−47.0	+2.8	+1.4	−4	−3.1	+15.0
Quincy	$ 95	12,318	$ 6,840		$ 49	$ 120
Percentage change from Dec., 1959	−42.8	+5.4	+31.3	n.a.	−9.6	+34.7
Percentage change from Jan., 1959	−63.0	+3.6	+3.1		+3.7	+24.9
Springfield	$ 985	41,679[c]	$16,032		$ 132	$ 379
Percentage change from Dec., 1959	+256.9	+4.7	+17.9	−59[c]	−9.3	+11.1
Percentage change from Jan., 1959	+210.7	+2.3	−8.7	+3[c]	−3.5	+5.2
SOUTHERN ILLINOIS						
East St. Louis	$ 167	16,741	$ 9,920		$ 146	$ 138
Percentage change from Dec., 1959	+160.9	+3.4	+20.3	n.a.	−8.5	+32.0
Percentage change from Jan., 1959	+542.3	+18.2	−2.9		−2.7	+4.4
Alton	$ 81	24,871	$ 6,149		$ 45	$ 41
Percentage change from Dec., 1959	−45.6	+1.4	+21.8	n.a.	−10.8	−23.1
Percentage change from Jan., 1959	−76.1	−5.4	−3.6		−3.8	−31.6
Belleville	$ 32	12,511	$ 5,577		n.a.	$ 85
Percentage change from Dec., 1959	−66.0	+2.7	+24.3	n.a.		+24.3
Percentage change from Jan., 1959	−91.6	+11.0	−2.9			+14.9

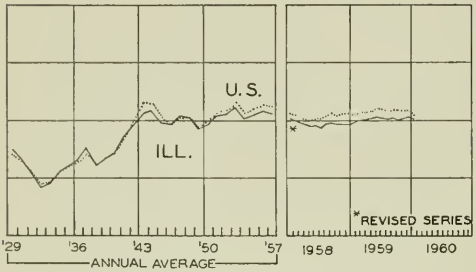
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for December, 1959. Comparisons relate to November, 1959, and December, 1958. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending January 15, 1960, and January 16, 1959.

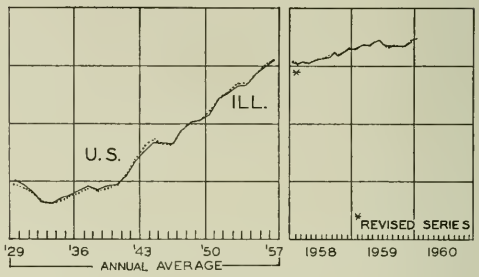
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

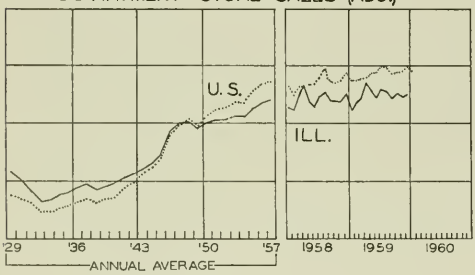
EMPLOYMENT MANUFACTURING



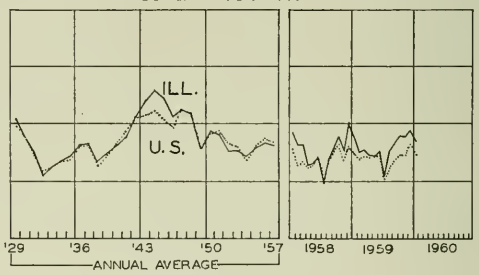
AVERAGE WEEKLY EARNINGS — MANUFACTURING



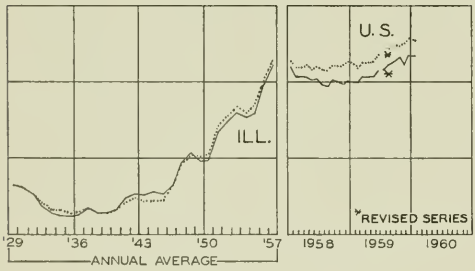
DEPARTMENT STORE SALES (ADJ.)



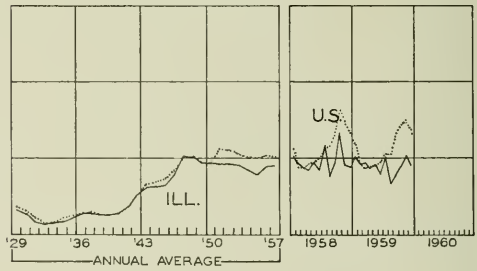
COAL PRODUCTION



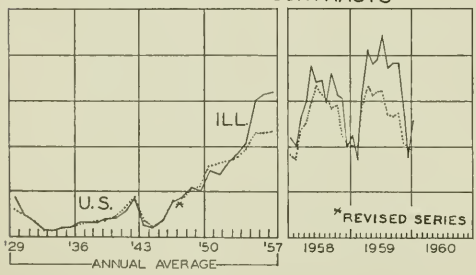
BUSINESS LOANS



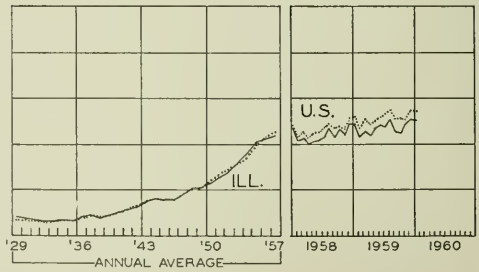
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MARCH

A further slowing of the pace of economic activity was evident in March. The index of industrial production lost 1 more point, bringing it down to 165 percent of the 1947-49 average. The automobile industry turned out about 654,000 units, down 5,000 from February, and the steel industry reduced output to 91 percent of capacity in March from the 94 percent rate of the preceding month. Although seasonally adjusted electric power output reached a new high of 275 (1947-49 = 100) as a result of cold weather demand, coal and petroleum production were down.

Retail sales held up fairly well, although they fell short of expectations in some lines. The seasonally adjusted index of department store sales gained 2 points to bring it to 142 percent of the 1947-49 average. Automobile dealers, stimulated by manufacturers' sales contests, sold 576,000 American-made passenger cars in March compared with 484,000 in February. Despite this increase, sales fell short of the rate required to match earlier industry forecasts, and there was a further rise in car inventories, which were already at a record high.

Unemployment Rate Up

Unemployment in March rose 275,000 to 4.2 million and employment declined 253,000 to 64.3 million. As a result, the seasonally adjusted rate of unemployment, which in February had fallen below 5 percent for the second time since October, 1957, rose to 5.4 percent in March. Although bad weather contributed to the increase in March, it seems unlikely that the rate will fall below 5 percent in April.

Construction Lags

Although the value of new construction put in place during March increased 5 percent to $3.7 billion, the gain over February was less than normal. Seasonal expectations call for an increase of about 8 percent between February and March. Most of the shortfall in the seasonally adjusted series was in private construction. An increase of $108 million carried the unadjusted total of this sector to $2.7 billion, but this left the adjusted annual rate 3 percent below February. Public construction was up 8 percent from the preceding month, but after seasonal adjustment it showed a decline of 2 percent.

Private nonfarm residential construction advanced a less-than-seasonal 6 percent to $1.4 billion, but private nonresidential building dropped 2 percent when it should have risen. In the public sector the largest dollar increases were in nonresidential building and in highways. Only the latter and public housing advanced more than seasonally.

Inventories, Sales Rise

Business firms again added substantial amounts to the book value of their inventories in February. Stocks held by manufacturing and trade firms rose $900 million to $91.4 billion on a seasonally adjusted basis. The increase was down from the $1.1 billion build-up in January as manufacturers cut their additions from $900 million to $600 million. Wholesalers and retailers maintained their January rate of accumulation, adding $100 million and $200 million respectively to the value of their stocks. At each level the increases were largely or entirely in durables, with gains in retail stocks occurring mainly in automobiles.

Total business sales rose $600 million to $62.2 billion after seasonal adjustment. Except for a $100 million gain by wholesalers, all of this increase went to manufacturers, raising the latter's total for the month to $31.6 billion. Sales by wholesalers amounted to $12.5 billion and those of retailers to $18.1 billion.

New orders received by manufacturers rose to $30.5 billion, a gain (largely in durables) of $700 million over January. However, shipments exceeded new orders, resulting in a reduction of about $700 million in the backlog of unfilled orders.

Consumer Debt Still Climbing

Consumers added to their outstanding short- and intermediate-term debt at an annual rate of $6.0 billion in February. This reflected net increases of $408 million in instalment obligations and $94 million in noninstalment debt, after seasonal adjustment. The total outstanding at the end of the month amounted to $51.0 billion, of which $39.4 billion was instalment and $11.6 billion was noninstalment debt.

Seasonally adjusted increases of $222 million in automobile debt and $106 million in personal loans were the biggest factors in the expansion of instalment obligations, which rose more than in any month since October, 1959. Some $16.7 billion in automobile paper was outstanding at the end of February. The advance in noninstalment debt was the result of a net increase in personal loans of $60 million and smaller gains in charge accounts and service credit.

CAN CAPITAL SPENDING DO THE JOB IN 1960? · · By D. C. Streever · · Page 8

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

The Real Threat

Washington is again resorting to the old confidence game in the hope of bolstering the economy. An item from the *Wall Street Journal* gives the show away:

"Bad news in coming economic reports threatens to undermine business confidence.

"So Administration chieftains fear. Winter's last onslaught alone hints at disturbing headlines on reports for March. Officials concede the figures will be 'dirty.' March housing starts, personal income, industrial output all may show declines from February. 'We'll just have to emphasize the positive,' declares one official."

Business, too, has taken to reassuring itself and the public. The essence of the standard line is this: "Business isn't booming as we expected, but it will be a very good year. If we aren't entering the 'soaring 60's' at least we can look forward to the 'sound and sensible 60's.' We were too optimistic last fall, but there really wasn't any good reason we should have thought things would be so good."

It might be added, "There really isn't any good reason now for thinking things will stay as good as they are."

Another Inventory Recession

In the current situation one dominant fact stands out: Despite a new high annual rate of inventory accumulation of $13 billion in January, industrial production reached a level only 1 percent above the high of last June. This fact has two main implications. First, production will be dropping back in the months ahead to reduce the inventory build-up. Second, all the activities based on high production will be losing this support, so that the weakness will tend to spread.

A more favorable light may be put on the situation by pointing out that inventories have been low and needed. The Department of Commerce in the March issue of the *Survey of Current Business* says that "the recent sharp expansion in output . . . has greatly aided in the replenishment of depleted inventories. . ." (p. 1). Over the past year, "sales expanded by almost one-tenth, so that the inventory-sales ratio was less than last year" (p. 4). Its account fails to point out either that the rise in sales was largely the result of increased demand for inventories or that sales will soon lose that increment and drop back unless some new stimulus appears.

The issue evidently needs clarification. A low inventory-sales ratio by itself means little and at best offers only temporary protection against a decline. The ratio always reaches a low when production and sales first approach a high. That is what happened last spring; when the high was re-established this winter, the ratio had already risen a little. Currently, production and sales are still near the peak, and assuming that they just level off, everybody might well be happy.

Why can't this kind of happy situation be preserved? Because inventories are rising rapidly and they keep on accumulating. No matter how low the ratio is when sales level off, it is just a matter of time until the ratio gets too high. In other words, high production and consumption are not enough. Unless they can increase further, the situation must wind up in a reversal. When the steady rise in inventories brings them to a high level in relation to sales, production must be cut. But that cut is also a cut in sales, so that the inventory-sales ratio continues to forge ahead after the turn, creating an excess that requires further cuts in production.

This is the situation we now face. Production is being cut, the inventory ratio is rising, and by summer there will be excesses to liquidate. There is nothing in sight to offset this reversal. The projected increases in plant and equipment expenditures are too small; and other factors on balance are more likely to aggravate than offset the decline. It appears that the high for the year, which was expected later, has been experienced in the first quarter and is now past.

An inventory reversal need not in itself be regarded as of serious consequence. Such reversals, if unsupported, produce only mild and short-lived recessions — witness the three already experienced in the postwar period. Unfortunately, there can be no assurance that this one will not be far more serious.

Why the Situation Is Different

Since the 1958 low, there have been a number of reports comparing the three recessions and recoveries experienced in this postwar period. Many similarities in these past situations can be brought out by adjusting time and level scales for the various economic measures depicted. These similarities, however, provide only weak justification for concluding that all these situations were alike and practically none at all for concluding that future recessions will be the same also.

The situation now is different from that at the beginning of earlier recessions. There are in fact many differences both international and domestic. Of these, only one of the latter — a very important one — will be developed here. The continued accumulation of stocks of assets and debt of all kinds is by itself sufficient to modify the situation substantially. The accumulation of business inventories is progressing to a new record high. The accumulations of other durable assets, such as business plant and equipment, houses, cars, and appliances has been slower but steadier throughout the postwar period. The accumulations of debt, including mortgage, instalment, and state and local government, has also been steady but relatively fast during this period. All of these other stocks are like business inventories in that they tend to be self-limiting in relation to total income.

The steady upward progress of the business stock of fixed capital is indicated by the capacity line on page 9. Since 1949, capacity has been increased by 70 percent. This year's planned capital outlays were reported in January, when business was still optimistic. The biggest

(Continued on page 6)

FLUORSPAR—A KEY INDUSTRIAL MINERAL

Fluorspar is of vital significance to a number of basic industries, even though it is minor in terms of national mineral output. It is used primarily as a fluxing agent for other minerals and as a raw material for hydrofluoric acid.

Until World War I, fluorspar was used almost exclusively as a flux. Since that time, and particularly since World War II, many new applications have been developed, especially in the chemical industries. An all-time production peak of 413,000 short tons was reached in 1944 to meet the heavy war demands for the production of steel and aluminum. In the thirteen years following World War II, production leveled off to an annual average of about 330,000 short tons. However, production has dropped sharply since 1957 as a result of curtailed government purchases and the 1959 steel strike.

Illinois First in Production

Although it is not a rare mineral, mineable fluorspar is found in only eight states, with the principal mining areas being in Illinois and Kentucky, where roughly three-fifths of total output is produced. Illinois, a perennial production leader for more than 120 years, accounted for 48 percent of the 320,000 tons of finished spar shipped in 1958, while Kentucky and Utah shipped 26,000 and 16,000 tons, respectively.

The dominant position of Illinois results from the very large reserves in two southern Illinois counties — Hardin and Pope. Fluorspar ores in Hardin are not only the richest in the State but are also the purest and deepest in the nation. Hardin produced about 87 percent of the state's crude spar in 1958, and Pope mined the remaining 13 percent. Hardin was credited with shipping nearly 48 percent of the national fluorspar tonnage in 1958. Nearly all of the crude spar ores mined in Pope are sent to Hardin for processing since the former county has no finishing mills.

In 1958, there were an estimated 13 companies in the State producing in excess of 500 tons of spar. However, four of these — the Aluminum Company of America, Ozark-Mahoning, Minerva Oil Company, and Southern Illinois Mining Company — accounted for nearly seven-eights of the entire Illinois production. Most of the larger companies in the State also produce lead and/or zinc concentrates as by-products to obtain maximum efficiency from their giant processing plants.

Fluorspar is marketed in three basic grades: acid, ceramic, and metallurgical. Acid grade, the purest form with at least 97 percent calcium fluoride, is used chiefly for making hydrofluoric acid and other chemical fluorines. Ceramic and metallurgical spars are marketed by varying degrees of purity desired by the consumer, but generally contain, respectively, roughly 85-97 percent and 60-94 percent calcium fluoride. Concentrates with less than 60 percent spar content are seldom marketed profitably. In 1958 three-fourths of total shipments from Illinois mines were of acid grade, whereas ceramic and metallurgical grades made up only 13 percent and 11 percent of shipments respectively. Nationally, acid-grade shipments totaled 192,000 tons; ceramic, 23,000 tons; and metallurgical, 105,000 tons.

Consumption and Uses

Illinois not only ranks first in production but is usually the top consumer of fluorspar, averaging about 15 percent of total domestic and foreign purchases. A sharp decline in spar consumption in the State from 97,000 to 63,000 short tons between 1957 and 1958 dropped the State to second place, but it is expected to regain its first-place position. Today, spar "gravel" (i.e., pellets) or concentrates are shipped to an estimated 36 to 40 states either for use as fluxes or for further conversion into numerous compounds.

The most important single use of fluorspar is that of fluxing steel. By adding spar to iron ores, the impurities are transformed into a workable substance which can be easily drawn from the furnace. Moreover, the flux protects molten metals from rapid oxidation and permits maintenance of lower furnace temperatures. Spar is also important for other metallurgical operations, such as the smelting or refining of gold, silver, lead, and nickel.

Sizable amounts of ceramic spar are used to give luster and opacity to products of the glass and enamel industries, such as lamp shades and bulbs, glass containers, bathtubs and sinks, tile and brick facings, and pottery-ware.

The increasing use of acid-grade fluorspar by the aluminum and chemical industries for the manufacture of hydrofluoric acid has made this the leading fluorspar product today. Hydrofluoric acid jumped from less than 25 percent of total fluorspar shipping tonnage in 1950 to more than 60 percent in 1958. It is used chiefly as an intermediate product in the manufacture of numerous fluorine compounds. Fluorines today cover a wide range of applications, ranging from photographic dyes, wood preservatives, antiseptics and tooth-decay preventatives to fertilizers, alcoholic antifermentatives, and shoe polish solvents.

Among the more important fluorine products are cryolite and aluminum fluorine, both needed in aluminum production. Another common but older compound is freon, a noninflammable gas used extensively in the nation's refrigeration and cooling systems. Freon has found an important secondary use as a propellent for spraying liquids and insecticides. Fluorides were used in large quantities during and after World War II for atomic energy experimentation and should become of major importance if large-scale industrial development of this power source is successful.

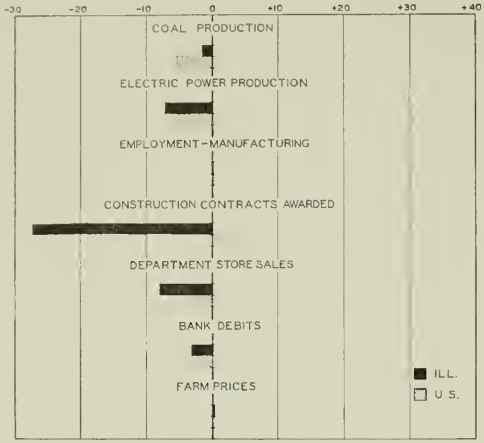
The outlook for the fluorspar industry appears promising. For many of its applications, fluorspar has few commercial substitutes which are either more economical or more satisfactory. This is especially true of hydrofluoric acid, the industry's number one product. However, because the fluorspar industry is generally dependent upon a few large industries, its future activity will be strongly influenced by the economic conditions of these other industries.

KNOW YOUR STATE

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes January, 1960, to February, 1960



ILLINOIS BUSINESS INDEXES

Item	Feb. 1960 (1947-49 =100)	Percentage change from Jan. 1960	Percentage change from Feb. 1959
Electric power[1]	234.4	− 7.4	+ 8.3
Coal production[2]	83.8	− 1.5	+11.2
Employment—manufacturing[3]	102.7[a]	+ 0.1	+ 3.4
Weekly earnings—manufacturing[3]	172.4[a, b]	− 0.3	+ 4.0
Dept. store sales in Chicago[4]	116.0[c]	− 2.5	− 1.7
Consumer prices in Chicago[5]	129.1	+ 0.2	+ 1.6
Construction contracts[6]	187.3	−27.4	+ 7.3
Bank debits[7]	202.0	− 3.2	+16.1
Farm prices[8]	77.0	+ 1.3	− 6.1
Life insurance sales (ordinary)[9]	263.4	+11.1	+ 2.0
Petroleum production[10]	113.8	− 5.3	+ 6.1

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Revised series. [b] Data are for January, 1960; comparisons relate to December, 1959, and January, 1959. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Feb. 1960	Percentage change from Jan. 1960	Percentage change from Feb. 1959
	Annual rate in billion $		
Personal income[1]	393.0[a]	+ 0.0	+ 5.9
Manufacturing[1]			
Sales	379.2[a]	+ 1.6	+ 10.9
Inventories	53.9[a, b]	+ 1.1	+ 8.2
New construction activity[1]			
Private residential	16.8	− 6.5	+ 2.1
Private nonresidential	15.0	+ 1.3	+ 13.8
Total public	10.9	− 7.1	− 11.6
Foreign trade[1]			
Merchandise exports	18.7[c]	− 6.8	+ 21.9
Merchandise imports	13.6[c]	− 23.1	+ 1.7
Excess of exports	5.1[c]	+115.2	+161.1
Consumer credit outstanding[2]			
Total credit	51.0[b]	− 0.7	+ 15.8
Instalment credit	39.4[b]	+ 0.1	+ 16.8
Business loans[2]	34.9[b]	+ 1.1	n.a.
Cash farm income[3]	32.6[c]	− 25.7	+ 22.3
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	110[a, d]	− 0.9	+ 7.8
Durable manufactures	110[a, d]	− 0.9	+ 12.2
Nondurable manufactures	112[a, d]	− 0.9	+ 4.7
Minerals	96[a, d]	− 1.0	0.0
Manufacturing employment[4]			
Production workers	101	− 0.1	+ 4.6
Factory worker earnings[4]			
Average hours worked	100	− 1.0	− 0.2
Average hourly earnings	171	− 0.4	+ 3.6
Average weekly earnings	172	− 1.4	+ 3.4
Construction contracts[5]	197	+ 2.1	− 2.9
Department store sales[2]	140[a]	− 3.4	− 0.7
Consumer price index[4]	126	+ 0.2	+ 1.5
Wholesale prices[4]			
All commodities	119	+ 0.1	− 0.1
Farm products	87	+ 0.6	− 4.5
Foods	106	+ 0.1	− 1.8
Other	129	0.0	+ 0.8
Farm prices[3]			
Received by farmers	86	+ 1.2	− 4.4
Paid by farmers	120	0.0	+ 0.8
Parity ratio	78[a]	+ 1.3	− 4.9

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Data are for January, 1960; comparisons relate to December, 1959, and January, 1959. [d] 1957 = 100. [e] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960					1959
	Mar. 26	Mar. 19	Mar. 12	Mar. 5	Feb. 27	Mar. 28
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,452	1,453	1,309	1,267	1,373	1,354
Electric power by utilities...mil. of kw-hr.	13,951	14,109	14,271	14,262	14,092	12,709
Motor vehicles (Wards)...number in thous.	166	174	175	167	186	147
Petroleum (daily avg.)...thous. bbl.	7,078	7,116	7,049	7,153	7,318	7,193
Steel...1947-49=100	151	151	154	154	156	153
Freight carloadings...thous. of cars	601	581	560	558	553	604
Department store sales...1947-49=100	131	129	116	98	110	141
Commodity prices, wholesale:						
All commodities...1947-49=100	120.1	120.0	119.8	119.4	119.3	119.6[a]
Other than farm products and foods...1947-49=100	128.7	128.7	128.7	128.5	128.6	128.1[a]
22 commodities...1947-49=100	84.3	83.8	83.6	83.5	83.3	86.8
Finance:						
Business loans...mil. of dol.	31,054	31,076	30,331	30,320	30,178	n.a.
Failures, industrial and commercial...number	286	302	290	299	277	297

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for March, 1959. n.a. Not available.

RECENT ECONOMIC CHANGES

Sales and Profits of Manufacturers Up

For the full year 1959, sales of United States manufacturing corporations rose to a record level of $338 billion, 11 percent above the $305 billion in 1958. All industry groups shared in last year's advance in sales, with the sharpest gains, more than 15 percent, reported by the motor vehicles, iron and steel, nonferrous metals, lumber, and leather groups. The over-all increases for durable goods and nondurable goods industries were 14 percent and 8 percent, respectively. Sales amounted to $85.6 billion in the final quarter of 1959, a gain of $2.5 billion, or 3 percent, over the previous period.

After-tax earnings in 1959 totaled $16.3 billion, about equal to the record level of 1956 and 29 percent greater than 1958 profits of $12.7 billion. Both the durable and nondurable groups reported sizable gains, 39 percent and 21 percent, respectively. After-tax earnings in the final quarter remained unchanged from the third-period level of $3.8 billion.

The annual rate of profit after taxes per dollar of sales rose to 4.8 cents in 1959, compared with 4.2 cents in 1958. As a percentage of stockholders' equity, the after-tax profit rate rose from 8.4 percent in 1958 to 10.2 percent last year.

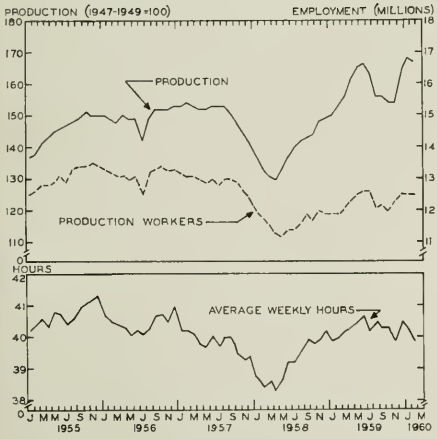
Consumer Optimism Increases

Preliminary findings of the annual Federal Reserve Board Survey of Consumer Finances indicate that consumers are showing increased optimism about the general economic outlook for this year and are expressing more interest in the purchase of durable goods than was the case last year. The confidence expressed by consumers, however, does not approach the optimism of 1955-56 and is somewhat tempered by the anticipation of price increases. The University of Michigan Survey Research Center, which conducted the study, concluded that while consumers' current attitudes may be expected to provide a positive stimulus to the economy, they do not justify anticipations of a great boom in consumer spending during the year.

The proportion of persons interviewed who see current business conditions as favorable increased considerably from the previous survey. Intentions to buy new cars during the next twelve months are presently about 20 percent higher than a year ago. A substantial proportion of the prospective new car buyers intend to buy compact cars, with the result that the median planned expenditures for new cars shows a sizable drop from last year. Plans to buy houses and most household equipment items were also above a year ago.

The one disturbing factor in the survey was the attitude of consumers concerning expected price changes. Last year about 61 percent of consumers anticipated rising prices; this year 72 percent are convinced that prices will move upward in the coming months.

MANUFACTURING PRODUCTION, EMPLOYMENT, AND HOURS



Sources: Federal Reserve Board and U.S. Department of Labor.

Manufacturing Output and Productivity Up

The spurt in manufacturing production following the steel strike leveled off in February. After climbing to a peak of 166 percent (seasonally adjusted) of the 1947-49 average in June, 1959, manufacturing output dropped sharply during the strike to a low of 154 in October and November. The subsequent recovery pushed the Federal Reserve Board's index of manufacturing production to a new high of 168 in January (see chart). The February slowdown lowered the index to 167.

The record levels of output in recent months have been achieved even though man-hours worked have remained relatively low. Currently the number of production workers engaged in manufacturing is up only about 10 percent, and total man-hours only 14 percent, from the low 1958 levels, whereas manufacturing output has risen almost 29 percent. The productivity gain is also reflected in the fact that output in the first two months of this year has surpassed the previous peak in mid-1959, but 3 percent fewer man-hours were being used than at that time.

Housing Starts Fall Further

Housing starts continued to slump in February, according to the latest report by the Census Bureau. During the month starts of new private homes dropped to a seasonally adjusted annual rate of 1,115,000 units, a decline of 8 percent from the January rate, which, in turn, was 9 percent below the rate in December. The agency attributed the decline to a tight supply of mortgage money.

Actual starts of privately owned dwelling units in February were only 400 units below the previous month's level of 74,800. However, starts usually experience an upturn in February. For the first two months of 1960 the number of private dwelling units started totaled 149,200, about 16 percent below a year ago.

Rise in Consumer Prices

The United States Department of Labor's consumer price index reversed a two-month decline in February and moved back up to the record high of 125.6 percent of the 1947-49 average which was established last November. The February increase was mainly caused by sharp advances in the cost of housing and medical care. In-

creased housing costs were attributed to higher mortgage interest rates, which have risen continuously in the last eighteen months. Adjustments of hospital insurance rates in many cities pushed medical care costs up 0.8 percent during the month. In the past ten years costs for medical care have risen 48.7 percent, the largest gain of any major category in the index.

Partly offsetting increases in other prices has been the steady decline in food costs in the past five months. In February food prices were 0.7 percent below a year ago. The food price index, however, is expected to begin moving upward in the spring, thus removing the main stabilizing element in the over-all index.

Retail Sales Steady

Sales of all retail stores in the United States were down 3 percent during February to an estimated $15.8 billion. After adjustments for seasonal variations and trading day differences, however, February sales were about equal to the January level of $18.1 billion. A year ago adjusted sales totaled $17.6 billion.

Adjusted sales of durable goods stores rose 2 percent during the month to slightly over $6 billion. This gain was offset, however, by a 1 percent decline in the sales of nondurable goods stores to $12.1 billion. Sales of stores in both categories were about 3 percent above February, 1959. The latest increase in sales of durable goods outlets was almost entirely due to a 5 percent gain in the automotive group. In the nondurable goods category, the general merchandise and apparel groups each dropped 3 percent from January, while eating and drinking establishments declined 1 percent.

Personal Income Climbs Slowly

Personal income in February reached a record seasonally adjusted annual rate of $393 billion, slightly more than in January and $1 billion higher than in December. The latest increase raised the income flow $22 billion, or 6 percent, above the year-ago rate.

Increases of $200 million in personal interest income, $100 million in rental income, and $700 million in wage and salary payments accounted for all of the February increase. These gains were only partly offset by declines in proprietors' income and transfer payments.

Although total wage and salary disbursements reached a new high of $269 billion in February, payments in the commodity-producing industries were down $300 million from the January high of $113 billion, mainly as the result of reductions in manufacturing industries.

Unemployment Up Sharply

Unemployment moved up contraseasonally in March to 4.2 million. The 275,000 rise in the number of jobless was the largest increase for the month since 1945. Employment, which usually increases in March, was down 253,000 during the month.

Labor Department data, in thousands of workers, are as follows:

	Mar. 1960	*Feb. 1960*	*Mar. 1959*
Civilian labor force	68,473	68,451	68,189
Employment	64,267	64,520	63,828
Agricultural	4,565	4,619	5,203
Nonagricultural	59,702	59,901	58,625
Unemployment	4,206	3,931	4,362
Seasonally adjusted rate	5.4	4.8	5.7

The Real Threat

(Continued from page 2)

increases were projected by the steel and auto industries, in which conditions have shifted most drastically since then. An early adjustment in the rate of investment to check the steady upward climb of capacity is more than just a possibility.

Since 1949 some 12 million houses have been built. The housing stock did not grow by this full amount, because many substandard units have been abandoned or cleared from city slum areas, but the increase of families housed in new units was half again as large as the net over-all increase in households. Moreover, the condition of existing houses has been greatly improved and multiple occupancy has been practically eliminated. Vacancies are still only 3 percent over-all, but vacancies in rental units are 6½ percent. Even a small increase in the surplus could sharply depress new building.

The number of houses has been overtaken and surpassed by the number of passenger cars in use. The stock of cars has more than doubled in the postwar period, to about 55 million, and pre-1950 models are a small proportion of this total. Millions of families that could readily get along on one car have two or more. This year the response of the buying public has been disappointing, and since the special stimulus of the carryover from the steel strike will be waning, sales are more likely to fall than increase. Even so, another 2 million may be added to the number of cars on the road in 1960.

Significance of High Stocks

The existence of these stocks signifies that we are now well equipped, not only for high production and high living, but for high liquidation. The appropriate level of any stock derives from the services it is designed to provide. When the situation changes, so that it is desired to liquidate part of the existing stock, new investment in additional units falls very low, depressing employment and income. But the demand for the services produced is itself a function of income. Anything capable of starting a decline in income, therefore, may set in motion a cumulative process of liquidation. Or, to put this another way, any recession that gets started has the potentiality, by reason of the stocks accumulated in the last decade, of becoming a major contraction.

The large debts that have been built up tend to behave in a similar manner and will aggravate the liquidating pressure in a decline. Since 1949, mortgage debt has tripled, reaching a total of $191 billion; the $20 billion increase in 1959 substantially exceeded any earlier year. In the same ten years, short-term consumer credit also tripled, to a total of $52 billion, and again the $6½ billion increase in 1959 was a new high. Repayments on these debts represent fixed claims on income, and will add leverage to any decline that may occur.

Should a concerted movement to liquidate these stocks get under way, the magnitude of the deflation would be severe. Some of the forces that halted the earlier recessions would not be available to initiate a recovery. The tight money policy has been ineffective in restraining the accumulation of stocks, and its reversal is likely to be even less effective in restraining liquidation. Any other government action now contemplated or likely to be quickly agreed on would be inadequate to prevent unemployment from rising far beyond any postwar level so far experienced. That is the real threat. That is why recent restrictive policies are misdirected. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Mobile Homes

Business Week recently reported that from 1955 to 1959 the production of mobile homes and travel trailers increased from 76,000 units per year to nearly 149,000 units, a gain of 96 percent. During the same period, annual sales for the industry jumped from $325 million to $691 million. As a result of this increased output, it is estimated that there are currently about 3.25 million people living in 15,000 mobile home parks in the country.

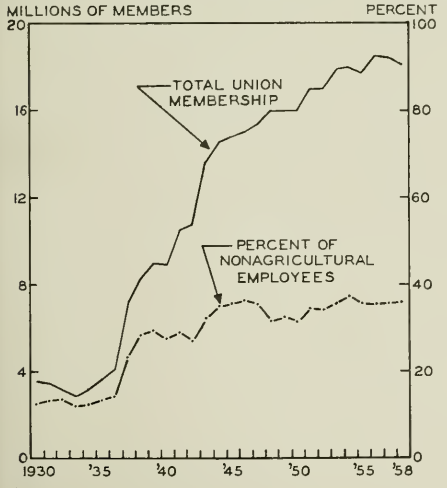
The industry gives three main reasons for this boost in the demand for mobile units. First, in late 1954 there was a swing from the eight-foot width to the ten-foot width. Second, the industry's advertising and new public relations campaign has started to take effect. Third, the industry has increased its efforts to sell units to successful bidders on big construction projects.

Surveys indicate that the nation's mobile home owners are found mainly among four groups. About 33 percent of the mobile home owners are skilled workers, 20 percent are military personnel, nearly 20 percent are professional people, and another 10 percent are in the retirement age group.

Union Membership

Data released by the United States Department of Labor indicate that total union membership declined from its high of 18.5 million in 1956 to 18.1 million in 1958. The sharpest growth in union membership came in the 1930's when unions nearly tripled their membership. Between 1940 and 1950 the gain in union membership amounted to 52 percent. Although union membership fell off from 1956, the total for 1958 was still 13 percent above 1950. The proportion of nonagricultural employees belonging to unions has also increased. In 1930, only 12 percent of total nonagricultural employees belonged to unions. Subsequent increases brought the proportion up to 27 percent in 1940, 32 percent in 1950, and 36 percent in 1958 (see chart).

UNION MEMBERSHIP IN THE UNITED STATES, 1930 TO 1958



Source: U.S. Department of Labor.

In 1958 the largest proportion of total union membership was in manufacturing. It accounted for 46 percent of total union membership, followed by utilities with 19 percent and construction with 13 percent.

The six unions with the largest memberships in the nation in 1958 were the Teamsters (1.4 million), the Automobile Workers (1.0 million), the Machinists (993,000), the Steelworkers (960,000), the Carpenters (835,000), and the Brotherhood of Electrical Workers (750,000). Between 1956 and 1958 only three of these six unions experienced gains in membership. The Electrical Workers led with an increase of 70,000. Membership losses approaching 300,000 were suffered by both the Automobile Workers and the Steelworkers, while the Carpenters' membership declined slightly.

A Study in Business Investment

A study conducted by Donald C. Streever entitled *Capacity Utilization and Business Investment* has recently been published by the University of Illinois Bureau of Economic and Business Research (76 pages, $1.50). It presents an analysis of the relationship of business capital expenditures to variations in the rate of utilization of productive capacity.

The author first reviews briefly the theoretical background of the hypothesis that the utilization of capacity is a determinant of investment and the significance of the hypothesis to business cycle and growth theory. The second part of the bulletin considers interview and other empirical studies of the determinants of investment, with special attention given to the role of expectations. In a third section, the relationship of investment to the utilization of capacity is dealt with statistically for four major industrial classifications — manufacturing and mining, electric power utilities, communications, and railroads.

Population by Type of Residence

According to data released by the Bureau of the Census, two-thirds of the increase of 24 million in the civilian population of the United States between April, 1950, and April, 1959, was accounted for by the 168 standard metropolitan areas of 1950. The metropolitan population of 99.9 million was 19 percent above the 1950 level. At the same time, an increase of 8 million people, or 12 percent, from 1950, brought to 74 million the number of persons living outside the standard metropolitan areas in 1959.

A major highlight of the shifting population during the 1950's was the rapid growth of the suburban and outlying sections of the standard metropolitan areas. For the first time the population within the metropolitan areas but outside the central cities equaled that of the central cities; each had a population of 50 million by April, 1959. However, the recent growth in the metropolitan areas has been predominantly outside the central cities, with increases of 117 percent in the rural nonfarm population and 25 percent in the urban population of these outlying areas, compared with an increase of 2 percent in the central cities.

Although the population in territories other than the standard metropolitan areas grew only 12 percent between 1950 and 1959, the rural nonfarm population outside the standard metropolitan areas increased 43 percent. In contrast, the rural farm population declined 14 percent.

CAN CAPITAL SPENDING DO THE JOB IN 1960?

D. C. STREEVER, Staff Economist
Eastman Chemical Products, Inc.

The conventional view of the economic outlook several months ago suggested that rapid economic expansion would occur through 1960, fed early in the year by post-steel strike inventory accumulation and later in the year by capital spending.

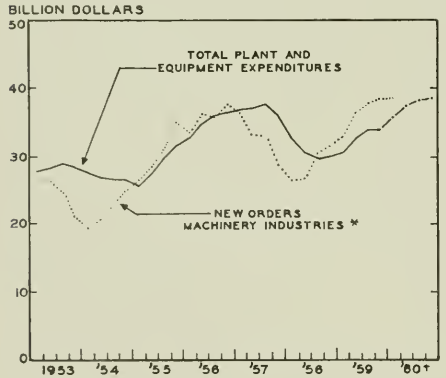
Developments in the first quarter of 1960 have considerably altered this view, primarily because the recovery from the steel-strike "recession" took place much more rapidly than was expected. What changes the outlook is the fact that over half of the first-quarter increase in gross national product reflected a spurt in inventory accumulation, as the annual rate of accumulation rose from $3 billion in the fourth quarter to an unsustainable $12 billion in the first.

Since it is obvious the $12 billion rate of inventory accumulation was not entirely voluntary — sales simply did not come up to expectations — there is no question that inventory investment should slow in the second quarter. Either sales will have to move up materially or further production cuts are impending, not only in autos and steel but in petroleum, textiles, appliances, and possibly other industries as well. Thus the inventory boomlet which was to provide the first-half mainstay of economic expansion spent itself quickly.

With inventory accumulation tending downward in the second quarter and at best neutral in the second half, what is to be the source of 1960's vigorous growth? Housing and federal government spending are generally regarded as neutral factors for this year. Slow, trend-like expansion is expected in consumer spending for nondurables and services and in public works expenditures by state and local governments. What zip is left in the economy at the present time is expected from exports, consumer durables, and capital expenditures. However, the change in exports will probably not be large and the outlook for consumer durables is quite uncertain. So the burden for carrying on the recovery falls primarily on business capital outlays.

CHART 1. CAPITAL EXPENDITURES AND MACHINERY ORDERS

(Quarterly totals at seasonally adjusted annual rates)



* Excludes farm, household, and electronic industries.
† Anticipated.
Source: Originally published in *Survey of Current Business*, September, 1959. Machinery orders brought up to date with data prepared by the Office of Business Economics; first quarter, 1960, preliminary.

Short-Term Outlook for Capital Spending

The Securities and Exchange Commission and Department of Commerce first-quarter survey of investment plans suggests that new plant and equipment expenditures will rise 14 percent in 1960. This compares with a gain of 22 percent between 1955 and 1956. The comparison with 1956 seems appropriate because capital spending is expected to perform the same buoying service for the economy in 1960 as it did in 1956, or put another way, because 1956 and 1960 appear to reflect similar business-cycle stages. The plant and equipment survey taken early in 1956, incidentally, suggested precisely the gain that was realized, as manufacturers as a whole lived up to their intentions and lower-than-anticipated outlays by railroads and public utilities were offset by higher expenditures from the mining, non-rail transportation, and commercial segments.

At present there is no indication from machinery orders or construction awards that would imply spending in 1960 will be any higher than business was planning in January and February. On the contrary, construction contracts were running below year-ago levels in early 1960 and seasonally adjusted machinery orders have been basically level since the third quarter of 1959 (Chart 1). Machinery orders show considerable irregularity from month to month and even when smoothed to quarter averages sometimes display saw-tooth movements (1955-56). Thus these figures must be used with caution; they will be closely watched in the months ahead, since they appear to provide reliable advance notice of directional changes in total capital expenditures.

In total the January-February investment survey suggests capital spending will regain its 1957 peak of $37.0 billion this year. Manufacturing spending, however, will be about a billion dollars below 1957 and spending by the trade, service, finance, communications, and construction group is expected to be up a billion dollars from three years ago (see table). Although manufacturing expenditures may fall short of 1957's level, the gain scheduled this year accounts for two-thirds of the total rise in plant and equipment expenditures of $4.5 billion. Steel, autos, machinery, chemicals, and petroleum are expected to make up $2.5 billion of this advance.

Steel is concentrating on improving open-hearth and finishing facilities as well as catching up on programs that were delayed last year. The auto industry is adding and converting facilities for production of its compact cars. The chemical industry, which has adequate to excessive capacity over-all, is converting old equipment to new uses, replacing obsolete facilities, adding facilities for new products. In petroleum, which has been in excess supply for several years, higher outlays in refining and petrochemicals are programmed. The latter is the rapidly growing segment, supplying the plastics industry among others.

Expenditures planned for the first and second quarters of 1960 as reported early this year suggest most of the gain will occur before midyear. A pattern implied for

the year as a whole follows (billions of dollars at seasonally adjusted annual rates):

		Total	*$ Change*
1959:	4th Qtr.	33.6*	+0.2
1960:	1st Qtr.	35.3*	+1.7
	2nd Qtr.	36.9*	+1.6
	3rd Qtr.	37.8	+0.9
	4th Qtr.	38.0	+0.2
1960:	Average	37.0*	

* Securities and Exchange Commission — Office of Business Economics.

Capital spending will provide a needed, though possibly only a partial, offset to impending reductions in the rate of inventory accumulation in the second quarter. This does not necessarily mean that the January peak in production was "it" for this business cycle. In 1956-57 the economy exhibited remarkable staying power as the turn was approached, and in 1960 the year as a whole might not average much away from the first-quarter level. The conclusion cannot be escaped, however, that capital expenditures now planned for the second half of 1960 will not be an important moving force in the economy.

Longer-Term Considerations

The incentives underlying this year's increase in capital spending, if one can generalize, appear to be more cost-saving or technologically motivated than expansion motivated. Certainly there is no shortage of capacity in most segments of the economy. Capital spending undertaken to reduce costs or update technology, however, seems almost invariably to increase capacity.

Unfortunately, no official capacity data are available to suggest just how large current industrial capability is. But partial information has been developed by a number of private researchers and organizations. Interestingly, various approaches to the measurement of manufacturing capacity point to the same conclusion — that a widening gap has been developing between industrial capability and production over the past decade.

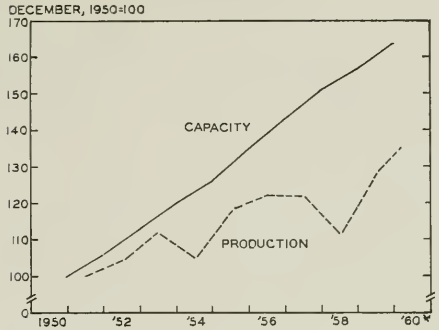
Chart 2 compares the movement in McGraw-Hill's index of manufacturing capacity and the FRB manufacturing production index, both expressed on a December, 1950, base. This is probably a reasonably good benchmark for making such a comparison because production rose very rapidly prior to December, 1950, and was close

Expenditures for New Plant and Equipment
(Billions of dollars)

Industry	1957	1959	1960	$ Change 1959–60
Manufacturing	16.0	12.1	15.1	+3.0
Durables	8.0	5.8	7.7	+1.9
Primary iron and steel	1.7	1.0	1.7	+0.7
Motor vehicles and equipment	1.1	0.6	1.0	+0.4
Machinery	1.9	1.4	1.9	+0.5
Other durable manufacturing	3.3	2.8	3.1	+0.3
Nondurables	7.9	6.3	7.5	+1.2
Chemicals and allied products	1.7	1.2	1.6	+0.4
Petroleum and coal products	3.5	2.5	2.9	+0.4
Other nondurable	2.7	2.6	3.0	+0.4
Mining	1.2	1.0	1.0	...
Railroads	1.4	0.9	1.0	+0.1
Other transportation	1.8	2.0	2.1	+0.1
Public utilities	6.2	5.7	6.1	+0.4
Other	10.4	11.0	11.6	+0.6
Total	37.0	32.5	37.0	+4.5

Source: Securities and Exchange Commission; Office of Business Economics.

CHART 2. MANUFACTURING PRODUCTION AND CAPACITY



* First quarter.
Sources: Capacity, McGraw-Hill, year-end 1959 preliminary; production, Federal Reserve Board.

to a peak rate at that time. More important than whether 1950 is a reasonable base, however, is the fact that capacity, according to this measure, rose 64 percent between the end of 1950 and the end of 1959. Production rose only 35 percent over this interval. Other studies of manufacturing capacity differ on the exact extent of the rise but not on the fact that capacity expansion has been much greater than the growth in production in recent years.

This of course raises the questions that were vigorously debated in 1957-58: How long can capacity go on growing more rapidly than production? What kind of adjustment in capital spending is implied when adjustment begins? What many apparently ignore is that a decline in capital spending of the magnitude of 1957-58 is a decline only in current production, and not in productive potential; the cutback slowed the rate of growth of capacity but its position of imbalance relative to demand increased. In the first quarter of 1960 the manufacturing industry was again operating at an estimated 80 percent of capacity, the same as last year's average and below other years since 1950, except 1958.

Present capacity does of course include inefficient facilities that are not being used but which could be used if demand required. It would be most comforting to have information that the process of "creative destruction," to use Schumpeter's terminology, has been so rapid that most of the difference between current production and capacity can be accounted for by facilities that should not be counted in today's capital stock. If this were known we could be assured that excess capacity is not a potential retardent to capital spending in the sixties.

Instead we are faced with reports from industry that capacity has grown at a rate of something on the order of one and a half to two times as fast as production over the past nine years. The rate of growth in production, moreover, has been achieved in part because of the high expenditures for new facilities that have created the excess of capacity.

This year capacity will rise more rapidly than in 1958 or 1959 (though less so than in 1956 and 1957 when retirements were smaller). Production will tend to be level. Thus new capacity will displace the need for, but not the existence of, older facilities. The rate of capacity utilization at the end of the first year of the Golden Sixties will be lower than at the beginning, and in this fact there is the strong suggestion that before the decade is over savings and investment funds will be channeled to markedly different uses than those of the fifties.

LOCAL ILLINOIS DEVELOPMENTS

In February, indexes of Illinois business activity remained about the same as in the previous month, with a few notable exceptions. The largest increase was in life insurance sales, which rose 11 percent. Construction contracts dropped 27 percent, in contrast to the nationwide increase of 2 percent.

Employment in Chicago

The Chicago Department of City Planning has recently released the first in a series of economic base studies for Chicago entitled *Employment in the City of Chicago with Projections to 1965*. This series of reports is designed to provide a better understanding of the present and future economic structure of Chicago.

By 1957 the number of people employed in Chicago had grown to nearly 2.0 million, an increase of 6 percent from 1950 and 29 percent from 1940. Of those employed in Chicago, about 85 percent reside there, a proportion which is higher than is found in most major cities in the country. However, the number of people commuting into the city to work has steadily increased. Between 1940 and 1957 this number rose from 172,000 to 279,000 persons. It is estimated that by 1965 there will be 2.1 million people employed in Chicago, including 307,000 commuters.

In 1957, about 80 percent of total employment in Chicago was in four industries. Manufacturing accounted for 35 percent; retail and wholesale trade, 23 percent; services, 14 percent; and government, 8 percent. Since 1940 the proportion of total employment in services and government has increased 1 and 3 percentage points respectively, whereas the proportion employed in manufacturing has fallen 2 percentage points and that in retail and wholesale trade has declined 3 percentage points.

Cost of Industrial Accidents

According to the February, 1960, *Illinois Labor Bulletin*, the cost of all industrial accidents occurring in Illinois between 1950 and 1958 is estimated at $4.3 billion. This estimate includes not only the direct cost of compensation and medical expenses, but also indirect costs, administrative expenses, and actual and future wage losses of all injured workers.

The cost of industrial accidents amounted to $548 million in 1958, almost the same as in 1957. Of this total estimated cost, employers bore about $263 million. Injured workers lost an estimated $284 million in wages, and the cost to the State amounted to $623,000.

Number of Retail Establishments

According to the 1958 Census of Business, the number of retail trade establishments in Illinois declined from 99,000 in 1954 to about 95,000 in 1958, a decrease of 4 percent. However, total retail sales increased 15 percent, rising from $11.0 billion in 1954 to $12.7 billion in 1958.

The accompanying chart indicates the percentage changes in the number of retail trade establishments in the 102 Illinois counties. Henderson County experienced the greatest percentage increase in retail establishments with a gain of 25 percent. At the other extreme, Calhoun and Hamilton counties showed declines of about 20 percent and 28 percent respectively.

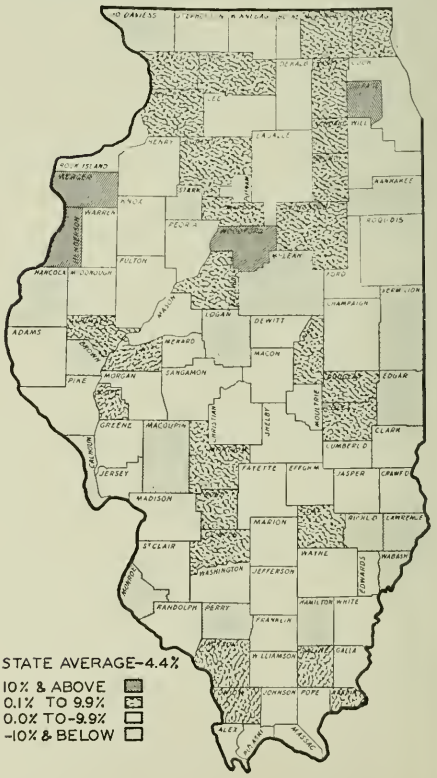
All sixteen major retail trading areas of the State experienced declines in the number of retail establishments between 1954 and 1958. These decreases ranged from 4 percent in Elgin to 17 percent in Quincy. The number of retail establishments in Chicago decreased 10 percent. However, in the counties surrounding these centers the number of retail establishments grew.

Agricultural Prices in Illinois

Data released by the Illinois Cooperative Crop Reporting Service indicate that the all-commodity index of prices received by Illinois farmers on February 15, 1960, was 220 percent of the 1910-14 base. This was the second straight month that farm prices increased, after declining almost steadily between mid-May, 1958, and mid-December, 1959. Although the corresponding index for the whole country declined during the same period, it fell only 13 percent, compared with 29 percent for the Illinois index.

The all-crop index for Illinois increased from 177 in mid-October, 1959, to 186 in mid-February, 1960; however, much of this increase was due to seasonal factors. The index of livestock and livestock products was up 7 percent from mid-December, 1959. Between mid-May, 1958, and mid-December, 1959, it dropped 25 percent. This decline was due mainly to the decrease in hog prices.

PERCENTAGE CHANGES IN THE NUMBER OF RETAIL TRADE ESTABLISHMENTS, 1954 TO 1958



Source: *1958 Census of Business: Retail Trade.*

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1960

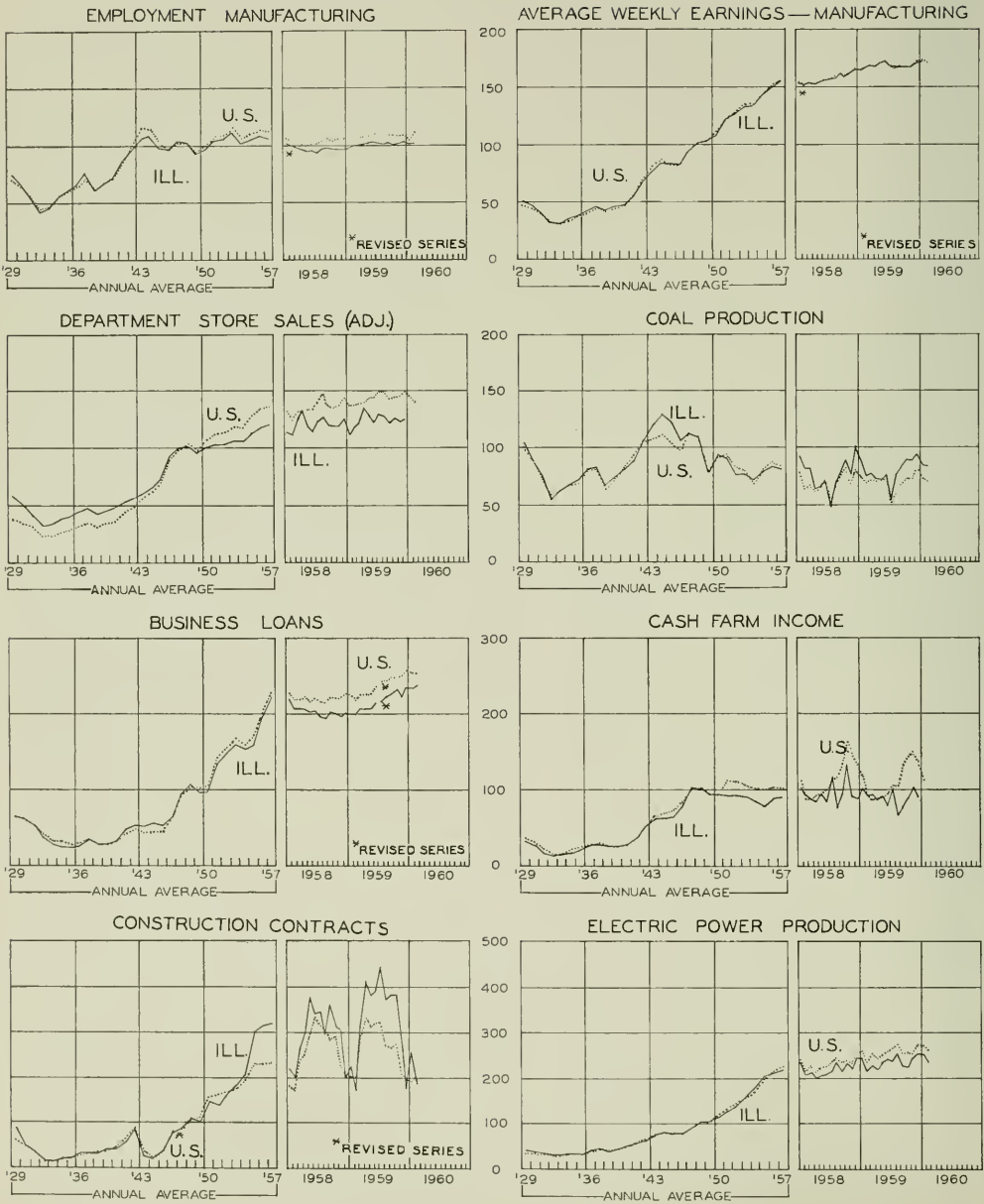
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$37,525[a]	1,294,799[a]	$540,471[a]		$17,658[a]	$16,552[a]
Percentage change from Jan., 1960	+66.3	−1.9	−22.2	−8	−3.2	−9.0
Percentage change from Feb., 1959	+99.5	+2.4	+2.0	0	+16.1	+9.1
NORTHERN ILLINOIS						
Chicago	$22,197	953,775	$403,565		$16,274	$14,291
Percentage change from Jan., 1960	+56.7	−2.1	−20.4	−8	−3.0	−6.4
Percentage change from Feb., 1959	+56.1	+1.1	+1.7	+2	+16.8	+9.6
Aurora	$ 281	n.a.	$ 8,201		$ 73	$ 163
Percentage change from Jan., 1960	+39.8		−29.4	−7	−10.7	−7.3
Percentage change from Feb., 1959	−50.7		+3.5	+5	+16.3	+4.6
Elgin	$ 132	n.a.	$ 5,436		$ 45	$ 117
Percentage change from Jan., 1960	−87.3		−30.6	n.a.	−9.8	−21.9
Percentage change from Feb., 1959	−7.7		+4.1		+8.1	+10.4
Joliet	$ 381	n.a.	$10,196		$ 87	$ 116
Percentage change from Jan., 1960	+11.7		−28.5	−9	−8.6	−30.6
Percentage change from Feb., 1959	+130.9		+8.9	+5	+17.4	+7.5
Kankakee	$ 551	n.a.	$ 4,380		n.a.	$ 66
Percentage change from Jan., 1960	+920.4		−31.1	n.a.		−12.4
Percentage change from Feb., 1959	+980.4		−1.4			+17.4
Rock Island-Moline	$ 406	28,972	$10,094		$ 107[b]	$ 193
Percentage change from Jan., 1960	−47.4	−4.4	−28.7	n.a.	−11.5	−5.7
Percentage change from Feb., 1959	−45.9	+0.8	−3.0		+11.1	+8.4
Rockford	$2,334	55,072[c]	$18,192		$ 196	$ 252
Percentage change from Jan., 1960	+318.3	−4.4	−22.2	−4[c]	−4.5	−25.2
Percentage change from Feb., 1959	+1,466.4	+9.7	+10.4	−5[c]	+18.4	+1.8
CENTRAL ILLINOIS						
Bloomington	$6,998	11,299	$ 4,989		$ 68	$ 99
Percentage change from Jan., 1960	+4,863.1	−0.2	−26.8	n.a.	−8.3	−20.4
Percentage change from Feb., 1959	+4,898.6	+21.6	+3.3		+6.2	−1.5
Champaign-Urbana	$ 196	15,773	$ 7,127		$ 75	$ 126
Percentage change from Jan., 1960	+35.2	+2.6	−27.4	n.a.	−6.1	−22.5
Percentage change from Feb., 1959	+92.2	+10.8	+2.0		+4.2	+13.3
Danville	$ 475	15,299	$ 5,230		$ 47	$ 69
Percentage change from Jan., 1960	−85.3	+7.9	−33.1	+1	−0.7	−24.7
Percentage change from Feb., 1959	+2,694.1	+10.2	−2.0	−8	+0.1	−0.7
Decatur	$ 473	36,831	$10,317		$ 110	$ 124
Percentage change from Jan., 1960	+42.0	+2.6	−25.5	−5[c]	−5.7	−31.1
Percentage change from Feb., 1959	−65.3	+5.3	+3.4	−14[c]	+3.1	+2.5
Galesburg	$ 39	10,089	$ 3,980		n.a.	$ 48
Percentage change from Jan., 1960	+225.0	−1.5	−30.6	n.a.		−28.0
Percentage change from Feb., 1959	+178.6	+1.6	−5.4			+2.7
Peoria	$1,201	60,655[c]	$15,919		$ 223	$ 315
Percentage change from Jan., 1960	+474.6	−3.0	−28.0	−5	−0.1	−25.6
Percentage change from Feb., 1959	+192.2	+2.9	+3.1	−16	+5.2	+10.4
Quincy	$ 117	12,155	$ 4,674		$ 47	$ 77
Percentage change from Jan., 1960	+23.2	−1.3	−31.7	n.a.	−3.1	−36.1
Percentage change from Feb., 1959	−3.3	+1.8	+8.0		+7.5	−4.6
Springfield	$1,221	40,588[c]	$11,611		$ 129	$ 317
Percentage change from Jan., 1960	+24.0	−2.6	−27.6	−10[c]	−2.3	−16.4
Percentage change from Feb., 1959	+276.9	+11.6	−1.9	−5[c]	+8.1	+3.2
SOUTHERN ILLINOIS						
East St. Louis	$ 63	17,129	$ 7,825		$ 132	$ 87
Percentage change from Jan., 1960	−64.2	+2.3	−21.1	n.a.	−9.9	−36.6
Percentage change from Feb., 1959	−12.5	+14.5	+3.3		−0.9	+11.1
Alton	$ 135	25,167	$ 4,574		$ 45	$ 41
Percentage change from Jan., 1960	+66.7	+1.2	−25.6	n.a.	+0.6	0.0
Percentage change from Feb., 1959	+46.7	−4.5	+3.4		+14.1	+5.1
Belleville	$ 125	11,994	$ 4,161		n.a.	$ 52
Percentage change from Jan., 1960	+290.6	−4.1	−25.4	n.a.		−38.6
Percentage change from Feb., 1959	+15.7	+17.0	+1.5			+6.9

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for January, 1960. Comparisons relate to December, 1959, and January, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending February 5, 1960, and February 6, 1959.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN APRIL

At the retail level business showed marked improvement in April, but production continued to weaken in some industries. Retail sales rose to a seasonally adjusted $18.9 billion, 3 percent above March and well ahead of the former record of $18.3 billion achieved last October. Department store sales jumped 9 points to a new high of 151 percent of the 1947-49 average, 1 point above the previous record set in July, 1959; and auto sales of about 579,000 units amounted to a daily average rate some 4 percent above March.

However, steel production dropped from 92 percent of capacity in March to about 80 percent in April, and auto output fell 11 percent to 583,000 units, preventing a further rise in record-high car inventories. These reductions in output, coupled with offsetting movements in other series, left the seasonally adjusted index of industrial production unchanged at 165 percent of the 1947-49 average.

Corporate Profits in Weak Recovery

Preliminary reports suggest that corporate profits in the first quarter of 1960 rose from the low fourth quarter, 1959, seasonally adjusted annual rate of $45.7 billion, but remained well under the second quarter, 1959, rate of $52.6 billion. This lack of progress was reflected in the stock market during April. In the absence of greater growth in profits, stock prices were testing resistance points on the down side during the latter part of the month.

Decline Continues in Construction

Total new construction expenditures in April were at a seasonally adjusted annual rate of $52.4 billion, about 2 percent below the March rate. This was the second consecutive month in which the seasonally adjusted value of new construction put in place declined. Actual outlays in April amounted to $4.0 billion, up 8 percent from March but down 6 percent from April, 1959.

The April decline reflected a drop of $950 million in the seasonally adjusted annual rate of private construction to $37.0 billion, which more than offset a small rise in the annual rate of public construction. Nearly all of the contraction in the private sector occurred in residential building, which was down 5 percent to an annual rate of $20.0 billion. Most other categories of private construction also declined, but these minor reductions were largely made up by an increase in the adjusted annual rate of public utility outlays.

The rise in the adjusted rate of public construction was attributed to small gains in nonresidential building and in the construction of military facilities. Other public construction held steady or declined after allowance for seasonal factors.

Instalment Debt Goes Up

Consumers added $408 million to their outstanding instalment debt in March, after allowance for seasonal variation. This was the eighteenth consecutive month in which new instalment loans exceeded repayments of such loans on a seasonally adjusted basis. It brought the total of such debt to $39.6 billion, 16 percent above the year-earlier figure. Most of the increase in March was in automobile paper, but other consumer goods paper, personal loans, and repair and modernization loans shared in the advance.

Noninstalment debt of consumers also expanded in March, but the increase in this type amounted to only $24 million after seasonal adjustment, the gains in single-payment loans and service credit being partly offset by a reduction in charge accounts. Total noninstalment consumer debt outstanding amounted to $11.5 billion, so short- and intermediate-term debt of consumers totaled $51.2 billion.

Inventories Up, Sales Down

On a seasonally adjusted basis inventories of manufacturing and trade firms went up $800 million in March, whereas total sales of these firms fell $900 million. The increase in stocks was divided as follows: $400 million by manufacturers, $100 million by wholesalers, and $300 million by retailers. All of the inventory expansion was in durables except in the case of retailing, where two-thirds of the gain was in stocks of nondurables. The drop in sales reflected declines of $800 million in the value of manufacturers' shipments and $300 million in sales of wholesalers, partly offset by an increase of $200 million in retail sales.

With the adjusted total of inventories at $92.2 billion and of sales at $61.3 billion, the stock-sales ratio amounted to 1.50, the highest since November, 1959.

New orders received by manufacturers declined $500 million to $30.1 billion after seasonal adjustment. The backlog of unfilled orders dropped $800 million to $49.4 billion, the lowest since February, 1959.

THE CHANGE IN OUR TRADE BALANCE · · By George Kleiner · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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Economics of Advertising

The shibboleths of the boom are widely expressed in a series of stirring phrases. Among them are unlimited growth, creative destruction, and divine discontent. The magic that invests these expressions appears in some mystical way to guarantee the permanence of prosperity. What is actually being talked about is sales promotion in all its varied forms. Research and advertising are the mainsprings. The former is supposed to beguile the consumer with an endless stream of new products and better ways of doing things. To the extent that it fails, the latter is supposed to put the campaign across by getting the consumer to buy the goods anyway.

The unprecedented growth of these activities in the last decade is cited as proof of their efficacy. Advertising expenditures roughly doubled from 1950 to 1959, reaching a total of $11 billion last year. Research moved up even faster, achieving a fourfold increase and a 1959 total of $12.5 billion, of which $9 billion was spent by industry. Most of the latter is on a par with the former, its primary objective being to exploit existing knowledge in the interest of higher sales. Neither includes expenditures for other forms of sales promotion or for direct selling.

Advertising Moves the Goods

A business newspaper recently made the distinction between advertising and "badvertising." It pointed out that there was very little in the latter category, which has been the subject of recent investigations and exposés. Its story did not point out that a much larger portion results in some disutility to consumers because, in appealing to unreasoning fears and hopes, it leads them into misallocation of resources. Nor did it point out that a still larger portion, though harmless, contributes no useful knowledge or utility to the welfare of consumers.

It is not intended to deny that advertising has some constructive values. Any such denial can readily be refuted by reference to the yellow pages of the telephone book or the classified section of the daily paper as providers of useful information. Any medium capable of bringing new products to public attention may be helpful. On a rough appraisal, without detailed research, it appears that about half of all advertising has some useful content. This kind is largely local; national advertising tends toward the opposite extreme. The worst is put out by industries that concentrate more than half of their outlays on TV — drugs and toiletries, tobacco, beverages, and cleaning supplies — but against this must be counted the entertainment value of the programs.

One well-established theory holds that advertising does not create needs but merely makes the buyer aware of them. In contrast is the widely accepted view that it artificially creates and maintains "values"; in extreme form, this view holds that an appropriate selling effort can sell almost anything at any price. Both affirm the ability of advertising to modify the distribution of expenditures if not their total. Thus, by the magic of advertising, consumers are made children again, aimlessly wandering through a jungle of gadgets and thrusting each carelessly aside when a new one catches the eye. But is this really a result of advertising or merely a consequence of the loose money of high prosperity?

Does Advertising Expand the Market?

A long-standing moot question concerns advertising's economic contribution, and the situation has been so confused that the controversy resulted only in stalemate. Most discussions of the subject actually ignore the welfare of the consumer. Neither national economic accounting nor marketing theory ordinarily looks beyond the sale of the goods to the buyer; at that point the goods become part of "consumption." Even general economic theory has tended to take wants and choices for granted.

From classical economics derives the standard argument for the useful role of advertising: It is assumed to enlarge producers' markets and thus to reduce production costs by realizing the efficiencies of mass production. In application to the individual firm, these results are apparent. What cannot be shown in the broader context of the whole economy is that prices are actually reduced or the over-all market actually expanded. When selling costs merely replace production costs as a basis for pricing, the price tends to remain the same. When the over-all market remains the same, the gain for the firm is at the expense of its competitors, and the effect of advertising is merely to concentrate business in the hands of fewer firms. Increases in the over-all market have actually been experienced over the years, of course, and advertising probably helps to accelerate changes, but the basis for growth inheres in other causes.

Another argument of this kind specifies that the market has expanded because advertising reduces consumer saving. The facts, however, do not support this contention. There has been remarkable stability in the rate of saving during the past century, and other influences on saving, such as instalment credit, appear to be far more important.

What opponents of advertising sometimes overlook, on the other hand, is that the advertising expenditures are also income. If paying this income reduced hoarded profits, it would actually increase the over-all income flow. Again, however, the profits of advertisers are usually thought to be increased rather than reduced. The main effect, therefore, may be merely to transfer income from producers to sellers, in which case advertising offers employment to offset loss of jobs in the factory.

Changing the Structure of Industry

If these shifts between product lines, between firms, and between occupations were the whole story, there would be little ground for complaint. But another aspect of advertising, also well accepted in marketing circles, is its objective of gaining a "limited monopoly position" for the advertiser. Its success in this respect has been demonstrated, for example, by the inability of price or quality

(Continued on page 8)

THE TRUCKING INDUSTRY

Today, the truck is so commonplace that the average American tends to forget that the motor freight industry is a development of the present century.

The first truck made by the automotive industry was developed in 1898, five years after the first automobile was marketed. Although the number of trucks increased from 700 to 400,000 between 1904 and 1917, trucking as an industry did not become significant until after World War I, when many of the refinements of the automobile were applied to trucks. Before that time, most trucks were inefficient, costly, and often weighed more than the load they could carry.

Until 1920, most trucks were used almost exclusively on a local or regional basis. The first cross-country trip was not even attempted until 1918. The burgeoning popularity of the automobile in the 1920's, however, led to the construction of new and improved roads, the establishment of widely scattered service stations and garages, and the training of repair personnel.

As travel became easier and trucks more practical and economical, the industry developed rapidly. The number of trucks on the road rose from 1.1 million to 4.4 million between 1920 and 1939. The popularity of trucks as carriers increased because of a number of factors, many of which are influential today: (1) high degree of specialization, (2) easier access to many localities, (3) faster service because of the possibility of greater frequency of deliveries.

The Postwar Industry

Trucking today is big business. The industry uses nearly 11 million trucks, or about 45 percent of the world total. More than 85 percent of these vehicles, including some of the nation's largest truck fleets, are operated by individuals or firms engaged in occupations other than hauling.

Trucking in 1958 accounted for about 20 percent of the nation's total ton-miles, a higher proportion than in any preceding year of its history. If value were used instead of weight, the proportion would have been even higher because it is characteristic of the industry to carry a higher proportion of manufactures than most other land or water carriers. Gross revenues for trucking are estimated to be between $7 billion and $8 billion annually.

Most trucking firms are private carriers. Six million, or 55 percent of all trucks on the road in 1958, were operated by manufacturers, distributors, and other business firms using them to haul their own freight. The second largest category of trucks was the 2.9 million units on the nation's farms. More than 500,000 trucks were publicly owned by federal (excluding military), state, county, and municipal governments.

The remaining 1.6 million trucks were operated by "for-hire" carriers, common or contract. The "for-hire" segment is composed primarily of small businessmen. There are altogether 51,000 firms, with a total employment of 600,000 persons, performing local and long-distance hauling. More than 58 percent of these firms have one to three employees, and less than 5 percent have more than 50 workers. About 17,000 of the 51,000 trucking operators are certified as interstate carriers; of these, 15,000 gross less than $50,000 annually.

Recent Trends

One of the important postwar trends has been the dynamic growth of truck-leasing service. Leases are negotiated either on a long-term or daily basis. Long-term leasing enables a firm, especially one requiring many vehicles, to operate without the problems of ownership and promotes high utilization by providing a pool of trucks to be drawn upon as required.

Another trend has been the shift toward larger carrying capacities of vehicles in order to obtain greater economies of scale. Truck combinations (such as semitrailers or full trailers), which account for only 6 percent of the nation's trucks, increased their share of total ton-miles from 69 percent in 1947 to 76 percent in 1957. During the same period they increased their share of total mileage from 28 percent to nearly 40 percent, indicating greater use as well as size of the large cargo trucks.

The growth of shopping centers and industrial plants away from older modes of transportation was made possible by and provided new markets for trucking. As part of this trend, the industry, like many others in the past decade, has been gradually shifting away from densely populated areas. Although the extent of this change has not been determined, it is partly reflected in the fact that, while total truck registrations increased 38 percent between 1949 and 1958, registrations in the 50 most populous counties increased only 27 percent.

Illinois — National Trucking Center

Illinois is the hub of the nation's trucking operations. It ranked fifth among the states in 1958, with its 432,000 units. Trucking firms in Illinois number almost 3,600 and employ more than 50,000 persons; only New York State exceeded this total employment. Besides the employees of "for-hire" companies, there are approximately 210,000 other persons in the State associated with private and public trucking operations.

Cook County had 114,000 trucks in 1958, 28 percent of the state's privately owned carriers. Lake and DuPage counties, ranking second and third behind Cook, together had only 17,000 trucks, 4 percent of the State total.

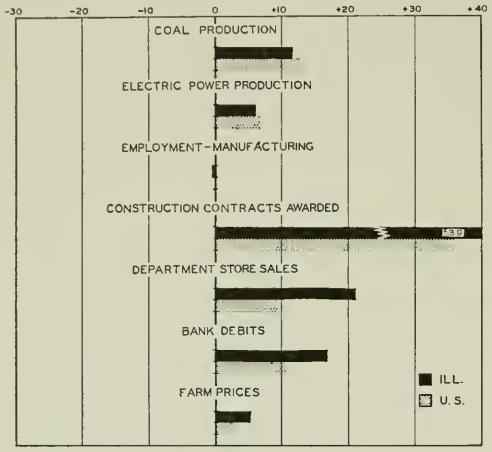
More than 500 interstate firms are situated in Chicago, together with nearly 2,000 local cartage companies. In addition, Chicago, with 250 of the state's estimated 330 terminals, has more than any other city in the nation.

Illinois leads all states in the number of fleets operated. In 1958, there were approximately 4,000 fleets of ten or more vehicles in Illinois. The number of common and contract carrier fleets, 1,400, was the largest both here and in the nation. Other large fleet owners were the food distributors (572 fleets) and the construction and mining firms (453 fleets).

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes February, 1960, to March, 1960



ILLINOIS BUSINESS INDEXES

Item	Mar. 1960 (1947-49 =100)	Percentage change from Feb. 1960	Percentage change from Mar. 1959
Electric power[1]	248.6	+ 6.0	+ 8.9
Coal production[2]	93.7	+11.8	+21.8
Employment—manufacturing[3]	102.3[a]	− 0.4	+ 1.7
Weekly earnings—manufacturing[3]	168.2[a, b]	− 2.4	+ 1.0
Dept. store sales in Chicago[4]	124.0[c]	+ 6.9	+ 2.5
Consumer prices in Chicago[5]	129.2	+ 0.1	+ 1.6
Construction contracts[6]	288.2	+53.9	− 7.5
Bank debits[7]	235.9	+16.8	+ 6.4
Farm prices[8]	81.0	+ 5.2	− 2.4
Life insurance sales (ordinary)[9]	323.2	+22.7	− 2.0
Petroleum production[10]	123.2	+ 8.3	+ 3.6

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Revised series. [b] Data are for February, 1960; comparisons relate to January, 1960, and February, 1959. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Mar. 1960	Percentage change from Feb. 1960	Percentage change from Mar. 1959
	Annual rate in billion $		
Personal income[1]	393.5[a]	+ 0.1	+ 4.8
Manufacturing[1]			
Sales	369.6[a]	− 2.5	+ 5.8
Inventories	54.3[a, b]	+ 0.7	+ 7.5
New construction activity[1]			
Private residential	17.5	+ 8.3	− 6.5
Private nonresidential	15.3	+ 2.1	+10.6
Total public	11.5	+ 8.6	−14.6
Foreign trade[1]			
Merchandise exports	18.9[c]	+ 0.9	+23.1
Merchandise imports	15.4[c]	+13.2	+15.2
Excess of exports	3.5[c]	−32.1	+78.2
Consumer credit outstanding[2]			
Total credit	51.2[b]	+ 0.3	+14.3
Instalment credit	39.6[b]	+ 0.6	+15.8
Business loans[2]	36.0[b]	+ 3.1	n.a.
Cash farm income[3]	24.9[c]	−23.7	− 6.7
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	110[a, d]	0.0	+ 5.8
Durable manufactures	108[a, d]	− 0.9	+ 6.9
Nondurable manufactures	112[a, d]	0.0	+ 4.7
Minerals	93[a, d]	− 2.1	− 2.1
Manufacturing employment[4]			
Production workers	101	− 0.5	+ 2.7
Factory worker earnings[4]			
Average hours worked	99	− 0.5	− 1.5
Average hourly earnings	172	0.0	+ 3.2
Average weekly earnings	171	− 0.5	+ 1.6
Construction contracts[5]	267	+36.0	− 8.8
Department store sales[2]	140[a]	0.0	+ 1.4
Consumer price index[4]	126	+ 0.1	+ 1.6
Wholesale prices[4]			
All commodities	120	+ 0.6	+ 0.3
Farm products	90	+ 3.9	− 0.4
Foods	107	+ 1.5	+ 0.1
Other	129	− 0.1	+ 0.4
Farm prices[3]			
Received by farmers	89	+ 3.5	− 1.1
Paid by farmers	120	0.0	+ 0.8
Parity ratio	80[c]	+ 2.6	− 2.4

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Data are for February, 1960; comparisons relate to January, 1960, and February, 1959. [d] 1957 = 100. [e] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960					1959
	Apr. 23	Apr. 16	Apr. 9	Apr. 2	Mar. 26	Apr. 25
Production:						
Bituminous coal (daily avg.) ..thous. of short tons..	1,433	1,468	1,385	1,389	1,452	1,371
Electric power by utilities ..mil. of kw-hr..	13,213	13,263	13,494	13,542	13,951	12,538
Motor vehicles (Wards) ..number in thous..	171	161	161	177	166	161
Petroleum (daily avg.) ..thous. bbl..	6,983	7,032	7,028	7,151	7,078	7,132
Steel ..1947-49 = 100..	130	129	140	147	151	154
Freight carloadings ..thous. of cars..	625	623	598	598	601	647
Department store sales ..1947-49 = 100..	146	156	153	143	131	141
Commodity prices, wholesale:						
All commodities ..1947-49 = 100..	120.0	120.1	120.2	120.1	120.1	120.0[a]
Other than farm products and foods ..1947-49 = 100..	128.6	128.7	128.8	128.8	128.7	128.3[a]
22 commodities ..1947-49 = 100..	86.1	86.1	85.8	85.0	84.3	87.5
Finance:						
Business loans ..mil. of dol..	30,894	30,974	30,889	31,026	31,054	n.a.
Failures, industrial and commercial ..number..	283	308	333	356	286	300

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for April, 1959. n.a. Not available.

RECENT ECONOMIC CHANGES

Security Offerings

New corporate securities offered for cash sale during the first quarter of 1960 fell 20 percent below the preceding period, according to the latest report by the Securities and Exchange Commission. Corporations offered $2.3 billion worth of securities in the first three months of this year, compared with $2.8 billion in the fourth quarter of 1959. First-quarter offerings were about equal to the corresponding period a year ago.

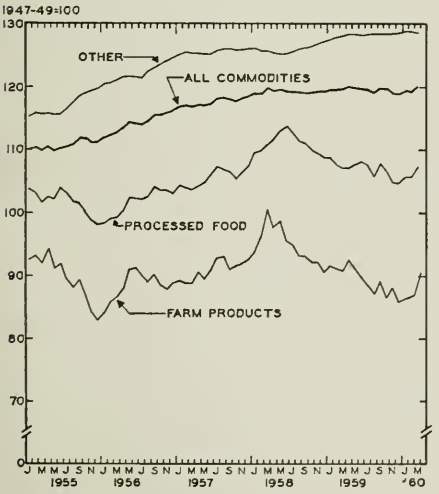
The lower volume of new securities offered in the first quarter reflected primarily a decline in financing by electric and gas utilities and communications companies. Offerings by electric and gas companies were off $330 million from the fourth-quarter 1959 total of $950 million. Communications companies issued $185 million of new securities in the opening quarter of this year, compared with $465 million in the preceding three months. The only industries showing any rise in financing during the period were the extractive companies and firms in the finance and real estate group. The latter showed a $220 million increase in issues to $750 million.

Housing Vacancies

The latest report by the Census Bureau shows that the vacancy rate of the nation's rental units has reached the highest level since 1956, the year the rental survey was begun. During the first quarter of 1960, the number of units vacant and available for rent rose to 7.2 percent of all rental units from 6.4 percent in the fourth quarter and 6.1 percent in the first three months of 1959.

Rental vacancy rates rose in all four sections of the country included in the agency's report. The largest advance occurred in the West, where the vacancy rate reached 9.7 percent of available units in the first quarter, compared with 8.3 percent in the preceding quarter. In the North Central region the proportion of rental units vacant rose from 6.7 percent to 7.7 percent in the January-March period. Smaller increases occurred in the South and Northeast, where the rental vacancy rates advanced to 8.3 percent and 4.4 percent, respectively.

WHOLESALE PRICE INDEXES



Source: Bureau of Labor Statistics.

Gross National Product

The nation's output of goods and services rose to a record seasonally adjusted annual rate of $500.2 billion in the first quarter of this year, according to data released by the Department of Commerce. The first-period rate represented a $16.7 billion advance over the previous quarter, the sharpest three-month gain since the fall of 1950.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	1st Qtr. 1960	*4th Qtr. 1959*	*1st Qtr. 1959*
Gross national product	500.2	483.5	470.4
Personal consumption	321.1	317.0	303.9
Durable goods	43.7	42.8	41.3
Nondurable goods	151.1	150.1	145.3
Services	126.3	124.1	117.4
Domestic investment	79.2	69.7	70.0
New construction	40.4	39.2	39.7
Producers' durable equipment	28.1	27.5	23.9
Change in business inventories	10.6	3.0	6.3
Nonfarm inventories only	10.1	2.3	5.4
Foreign investment	1.2	−.6	−.9
Government purchases	98.8	97.4	97.4
INCOME AND SAVINGS			
National income	n.a.	402.6	389.4
Personal income	393.1	386.8	371.8
Disposable personal income	345.4	340.8	327.4
Personal saving	24.6	23.7	23.5

Most of the first-quarter increase resulted from a $4.1 billion rise in personal consumption expenditures and a $9.5 billion advance in the rate of gross private domestic investment. The latter was spurred by a sharp rise in stocks during the period. Nonfarm business inventories were accumulated at an annual rate of $10.1 billion in the first quarter, compared with $2.3 billion in the last three months of 1959. Investment in new construction and producers' durable equipment also advanced in the January-March period this year.

Wholesale Prices

Wholesale prices experienced the largest monthly advance in two years during March, rising six-tenths of 1 percent to 120.0 percent of the 1947-49 average. The increase, which pushed the index up to the record high of April, 1959, was almost entirely due to higher prices for farm products and processed foods. Severe weather in March brought substantial price increases for livestock and eggs, and vegetable prices rose seasonally. As a result the price indexes for farm products and foods rose 3.9 percent and 1.5 percent, respectively. In the nonagricultural component, increased gasoline prices in March were offset by falling prices in the metals group, while most other prices were virtually unchanged.

The recent increases in the prices of farm products and foods followed almost two years of continuous decline (see chart). During most of this period, rising industrial prices were the main factor in maintaining the relative stability of the over-all index. However, industrial prices began leveling off early last year and have been quite stable in recent months.

THE CHANGE IN OUR TRADE BALANCE

GEORGE KLEINER, Associate Professor of Economics

The loss of gold and dollars that suddenly grew so sharp in 1958 continued through 1959. Foreign banks and official institutions acquired $4.4 billion of additional gold and dollars in transactions with the United States, but $1.4 billion of this represented an increase in our subscription to the International Monetary Fund. As against this, there were extraordinary receipts, in the fourth quarter, from advance repayments of debts by foreign countries to the United States government. If we eliminate these nonrecurring transactions, the deficit in our international payments would be closer to the $3.4 billion recorded for 1958.

In another sense, however, the deficit in 1959 appears even more serious than in 1958. Whereas in 1958 our merchandise exports exceeded our imports by $3.3 billion, our trade balance in 1959 as a whole declined to $900 million (Table 1). Foreign acquisitions of gold and dollars, exclusive of the IMF additional subscription, would have been even larger than they actually were had it not been for a shift in capital flows. There was some decline in our capital outflow, both private and governmental, and a substantial increase in capital inflow attracted by increased interest rates in the United States relative to other countries and made possible by the new easing of restrictions on such capital movements in most West European countries at the beginning of 1959.

Decline in Our Trade Surplus

The decline in our trade surplus is disturbing in several ways. First of all, it reduces the contribution made by our international trade to the maintenance of a high level of employment in the United States. Some development in this direction, of course, had to be expected. In the early postwar years, pressing reconstruction needs and the inability to allocate sufficient resources to the production of exports meant a very large deficit in real goods and services for the rest of the world vis-á-vis the United States. Most of this deficit we financed through loans and gifts, but a part of it was financed through the drawing-down of gold and dollar balances, and these had to be replenished once reconstruction was achieved.

TABLE 1. UNITED STATES BALANCE OF PAYMENTS

(Excluding military grant-aids; billions of dollars)

Item	1953	1956	1958	1959
U.S. expenditures abroad:				
U.S. imports	16.4	19.8	20.9	23.5
Merchandise	11.0	12.8	12.9	15.3
Services and military expenditures	5.4	7.0	8.0	8.2
Govt. grants and capital (net)	2.2	2.4	2.8	3.5
Private capital and remittances (net)	10.9	3.5	3.3	2.7
Total	19.5	25.7	27.0	29.7
Foreign expenditures in the U.S.				
U.S. exports	17.0	23.5	23.2	23.3
Merchandise	12.4	17.3	16.2	16.2
Services and military sales	4.6	6.2	7.0	7.1
Long-term investments in the U.S. (net)	0.1	0.4	0.0	1.2
Transactions unaccounted for	0.2	0.7	0.4	0.8
Total	17.3	24.6	23.6	25.3
Change in foreign gold and dollar assets through transactions with the U.S.	2.2	1.1	3.4	4.4[a]
of which: U.S. sales of gold	1.2	−0.3[b]	2.3	1.1[a]

[a] Includes $1.4 billion increase in IMF subscription.
[b] (−) indicates gold purchases.
Source: U.S. Department of Commerce.

But mere replenishment of reserves to the level of the immediate postwar period was not enough. The increase in both the volume and the value of world trade led many countries to feel that their international reserves should be higher than in 1945, if they were to bear some relationship to probable fluctuations in trade and if such fluctuations were to constitute a greater threat to reserves (as seemed likely) as a result of the progressive dismantling of direct quantitative restrictions on imports and the return to convertible currencies. Thus from 1950 through 1957, the rest of the world increased their gold and dollar holdings through transactions with the United States by about $10 billion. But the increase in foreign reserves per year remained moderate, and they were not achieved at the expense of our exports, which expanded steadily until 1958. By contrast, our exports in 1958 fell compared with 1956 (they fell much more compared with the Suez-crisis year of 1957), while our supply of dollars to the rest of the world, through imports, net capital outflow, and economic aid, actually increased somewhat. Thus foreign gold and dollar holdings increased sharply. In 1959, our net outflow of capital and aid decreased, but our current account surplus decreased by roughly an equivalent amount. Our imports expanded in line with the revival of economic activity here, but not so our exports, which increased only moderately from the low point reached in the first quarter of the year.

The decline in our trade surplus also raises questions as to our ability to continue economic aid and private investment in foreign countries on a scale comparable to the 1950's. Until the last two years, our aid and loans had never involved us in the problem of transferring the loans in the form of real resources. The demand for our goods and services in the rest of the world was strong enough to assure that the proceeds of our aid and loans would be spent here, aside from such increases in reserves as foreign countries felt they should make. Thus the transfer of the loans and aid in the form of resources was quite automatic. But in the past two years this has not been the case. Continuation of such an excess of aid and loans over our current account balance, for several years, would reduce our gold holdings (or increase the amount of liquid dollar balances held by foreigners) to the danger point.

Possible Solutions

One possible solution to this dilemma would be to restrict economic aid and private lending. It is doubtful whether a restriction of aid would help very much; it is quite likely that it would lead, at the same time, to a reduction in exports, since our aid goes mainly to countries whose commercial exports are not high enough, compared with their import requirements, to enable them to allocate dollars to the purchase of goods they now get through the aid program. We have already taken some steps in the direction of requiring that aid or governmental loan funds be spent in the United States,

rather than in third countries. But this move toward "tied loans" runs contrary to all of the efforts we have made in the postwar period toward re-establishing a multilateral system free of direct restrictions, in which countries buy in the cheapest market and sell in the dearest, thus maximizing competition and the gains from trade.

We could also impose restrictions on the outflow of private capital. The British restricted the flotation of new foreign issues in London, in the 1930's, when they were faced with a similar problem; and some sort of restriction could be imposed on short-term commercial loans to foreign concerns or foreign subsidiaries or branches of American firms. But this might involve more regimentation and control than we wish to adopt, and would certainly run counter to developments in the other major money-market centers, where restrictions on capital movements have been virtually eliminated.

If neither aid nor private loans should be restricted, we come back to the problem of the decline in our exports of goods and services relative to our imports. Given the financial outflow of aid and lending, our current account must again turn positive to the extent necessary to secure "transfer" of the aid and loans in the form of real resources.

Finally, the decline in our current account balance, coupled with the substantial holding by foreigners of liquid dollar balances, restricts our own freedom of action with respect to monetary policy. A change in interest rates in the United States, relative to other countries, will be an important factor influencing the decision by foreign countries as to whether to hold dollars or to convert dollars into gold. In 1958 our gold loss was $2.3 billion, compared with about $700 million in 1959 (after deducting our gold contribution to the IMF). Part of this difference was due to the change in the distribution of our deficit as between countries. Many of the countries whose payments position improved in 1958 typically take gold rather than hold foreign balances, whereas in 1959, considerably more of our deficit was vis-á-vis primary-producing countries that typically hold dollars. But the increase in interest rates was also an important factor; it encouraged foreigners to acquire short-term obligations here, rather than invest in other money-market centers. Should our domestic economy make it desirable to maintain an easy money policy, it would be most unfortunate if the state of our foreign balances were to prevent such an attempt to maximize employment and growth at home.

The Current Account Balance

Our current account balance could be improved either by a reduction in imports of goods and services or an increase in exports. Any attempt to restrict imports through increased tariffs or other restrictions (such as "buy American" devices) would run contrary to everything we have worked for in the international economics area, and could plummet the world back into beggar-my-neighbor policies. We have thus far resisted almost every pressure in this direction, and we should continue to do so. One particular payment has received some special attention, however; this is our military expenditures in foreign countries for the maintenance of bases and other installations. It is conceivable that this expenditure could be cut somewhat, but given our military policy, there does not seem to be much scope for reduction.

Improvement of our trade balance, therefore, devolves on our exports and on the production of goods at home that will compete more effectively with those imports that have increased rather sharply in the past few years. Table 2 lists the more important commodity areas in which exports have decreased or imports increased between 1956 and the year ending September, 1959. Six commodity areas accounted for more than 90 percent of the reduction in our trade surplus. These were autos and parts, iron and steel products (both crude and manufactured), coal, petroleum and oil (both crude and manufactured), raw cotton, and meat products. In some of them (coal, cotton) it was a decrease in exports that predominated; in others (meat, autos) it was an increase in imports.

Geographically, Western Europe accounted for most of the decline in our trade surplus between 1956 and 1959 — 60 percent. Next in importance were Asia, about 17 percent (much of this decline was due to increased imports from and decreased exports to Japan, which in 1956 was undergoing a really phenomenal expansion in investment and a consequent dollar deficit); Canada, about 12 percent; and Latin America, about 9 percent.

A combination of the commodity and the geographic breakdown of our reduced trade surplus, together with scattered other data, can tell us a good deal about what happened. Although the recession in the United States was perhaps more dramatic than elsewhere and resulted in a sharp drop in output, it was actually preceded by recession or stagnation in most of the important industrial countries. Canada's recession commenced early in 1957; in Western Germany, the United Kingdom, Italy, Belgium, and Sweden, there was either no increase at all in industrial production in 1957, or an actual decline. Moreover, whereas economic activity in the United States began to pick up sharply in the summer of 1958, most of the West European countries remained stagnant until the first or second quarter of 1959.

TABLE 2
CHANGE IN U.S. FOREIGN TRADE SURPLUS
1959[a] compared with 1956
(Millions of dollars)

Category or commodity	Change in exports[b]	Change in imports	Net balance
Total change in trade	−1,254	2,067	−3,321
Finished manufactures	−49	1,616	−1,665
Crude and semimanufactured materials	−1,025	83	−1,108
Other commodities	−180	368	−548
Major commodity changes:			
Finished manufactures			
Machinery and related items	41	196	−155
Autos and parts	−224	647	−871
Textiles	−48	75	−123
Nonfood consumer goods	96	241	−145
Steel mill products	−70	125	−195
Petroleum products	−75	44	−119
Crude and semimanufactured			
Iron and steel mill products	−240	116	−356
Steel scrap and pig iron	−180	12	−192
Coal and related products	−325	−1	−324
Petroleum, crude	−82	56	−138
Fuel oil	−75	134	−209
Copper, unwrought	−63	−254	191
Cotton, unmanufactured	−377	3	−380
Industrial chemicals	155	32	123
Food and beverage products			
Meat products	3	259	−256

[a] Year ending September, 1959.
[b] Exclusive of military aid shipments.
Source: U.S. Department of Commerce.

This economic stagnation in the industrial countries, moreover, spread rapidly to the primary-producing countries. Whereas United States imports from primary producers fell until the summer of 1958, then began to increase, Europe's imports remained depressed (in value terms, because of the fall in primary products prices) through September of 1959. The primary-producing countries, in turn, were forced to curtail their imports sharply in 1959, in order to replenish their reserves, which had been badly depleted by the decline in their export prices and some reduction in the volume of exports in 1957-58.

Prospects for Relief

The economic stagnation in Europe was not the only factor responsible for the decline in our trade surplus. Developments in particular commodities also contributed, and some of these can be expected to be temporary. Thus cotton sales were reduced because of a price that was above the world market, and the recent decrease in price has already expanded exports. Domestic meat production can be expected to increase presently, with a consequent reduction in imports. The steel strike had an important effect on both our exports and imports. The introduction of the smaller American car has already served to decrease competition from Europe. There was delay in the delivery of jet planes, which will almost certainly be made good this year. Exports in 1960 have already registered a sharp increase: they were 21 percent higher in the first quarter than a year ago, and though imports have also increased, the over-all deficit has been cut, perhaps to about $2 billion at an annual rate.

Looking to the longer run, a solution to our balance-of-payments problem will depend mainly on the maintenance of a high growth rate in the major industrial countries. Such growth, moreover, must be firmly based on domestic expansion, not on the maintenance of a large export surplus.

There is very little evidence that American products in general have been priced out of competition in world markets. United States prices rose less than prices in the major industrial countries, over the 1950's. But there is some evidence that, faced with a fall in their internal demand (or a failure of demand to increase proportionately to output potential), European producers have pushed exports at favorable prices. In the earlier post-war years, combating the dollar shortage in order to restore convertibility and multilateralism seemed to many policy-makers to be the most pressing need. To this end, restrictive policies were instituted whenever the rate of expansion threatened a labor shortage and a consequent increase in money wage rates. These policies tended over the years toward continued expansion of exports. This has been particularly true in Germany; and the decline in our share of world trade can be almost entirely accounted for by the increase in Germany's share.

Holding the reins on internal expansion can improve a country's export position in two ways: it helps to price exports favorably, and it reduces the domestic absorption of resources, particularly in the consumer sector, thus making them available for an increase in exports. The resumption of a strong growth rate in the industrial countries, as in the years 1953 to 1956, would be the most important guarantee of a viable balance-of-payments position for the United States. Such growth is currently in evidence in most industrial countries, but the years beyond 1960 must provide the critical test both for their prosperity and for our international finances.

Economics of Advertising

(Continued from page 2)

competition to cut into the market of established advertisers. Constant reiteration of superiority, whether or not founded in fact, leads the consumer to shy away from "taking a chance" on the lower-priced product.

When one firm advertises, it forces other firms to do the same, and some go out of business. As the number of firms is reduced, control of the market is tightened and price competition tends increasingly to be ruled out. Thus advertising becomes a factor in building the mechanisms for administered prices. In other words, the "limited monopoly positions" achieved in this way are not so limited as to be without effects on competition.

Returning now to the question of the expansibility of the market, it would seem that prices are likely to be higher and demand lower as a result of advertising rather than the reverse. Beyond the point where increased selling costs offset falling production costs, pricing could hardly be anything but restrictive. Furthermore, increases in selling costs are discretionary, and in industries with sufficient control of the market, prices may be raised to cover cost increases. This was, in fact, fairly typical experience in the 1950's; costs and prices rose together.

An Element of Instability

To the extent that prices are raised while production is restricted, the result is "inflation." The transfer of real income to the "nonproductive" workers in the price-raising industries is in this case accomplished by a "monopolistic tax" on the consuming public.

It is, of course, oversimplification to blame everything that happens on any one factor alone. The forces sustaining the boom have been complex. Nevertheless, the expansion of "nonproductive" services seems clearly to have contributed to the recent "inflationary trend." In manufacturing, this influence has contributed to rising ratios of total employees to production workers and of salary payments to wage payments. A recent Committee for Economic Development study shows that of a 41.4 percent increase in the price of manufacturing gross product from 1947 to 1958, salary increases (sales, research, and other) contributed 16.5 points while wage increases contributed 12.4 points. The effects of advertising and research carried on by others for the manufacturers are not included.

During the past decade profits have remained ample enough to justify these costly expenditures. They could be rationalized on the basis that the government was paying half of it anyway. If the situation should change so that profits were no longer available, these expenditures would be called in question. A sharp reduction in "nonproductive" expenditure might then be effected by cutting salaried employment. Such activity stands as another element of instability in the economy.

Those who press for ever-greater research and advertising efforts seemingly fear that the economy cannot function at peak levels unless demand is progressively spurred. They fail to see that it is not functioning when the public is confused; this "solution" merely frustrates the basic objective. For all the gadgets at his disposal, modern man appears to have gained far less in satisfaction and creativity than we wish to believe. In years to come we may breed a race of men who will be so content in their ability to have what they want that they will not feel impelled into a frantic scramble to get everything. Is it likely that advertising will help us along toward this goal? VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Graphic Guide to Consumer Markets

Under the sponsorship of *Life* magazine, the National Industrial Conference Board has prepared *A Graphic Guide to Consumer Markets* (112 pages, $3.00). This report aims to meet the need for a compact and convenient source of basic marketing information for business executives. Specifically, it is meant to serve three functions: first, to present on a current basis the principal statistical series which will enable marketing executives to review periodically the consumer sector of the economy; second, to provide the essential background facts that are pertinent to consumer behavior at the retail level; and third, to present statistical data in a way that facilitates easy examination and quick interpretation.

The material in the report has been organized into seven broad categories — population, income, expenditures, markets, advertising, prices, and production and distribution. In addition, the report contains about 180 charts which cover more than 200 statistical series. Space has been left in the relevant charts for plotting up-to-date figures through the year 1961.

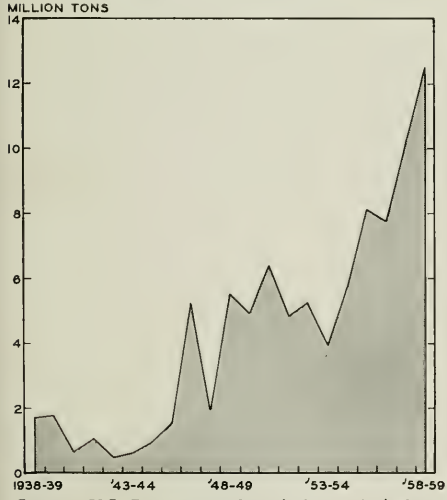
Rising Feed Grain Exports

The March, 1960, issue of *Agricultural Situation* indicated that foreign trade has in recent years become an important outlet for the nation's four principal feed grains — corn, oats, barley, and sorghum. During the 1958-59 marketing year, feed grain exports reached a record of 12.5 million tons, and exports for the 1959-60 marketing year are expected to amount to about 13.0 million tons.

Feed grain exports have risen sharply since World War II (see chart). During the twenty years preceding 1946, feed grain exports averaged only 1.2 million tons and approached 5 million tons only in 1937. During this period exports were only 1.5 percent of total feed grain production. In the ten years following the war, exports increased to an average of 5 million tons per marketing year, and these exports represented slightly over 4 percent of the average total feed grain production. The 12.5 million tons exported in 1958-59 represented nearly 8 percent of that year's crop.

The growth in feed grain crops in the United States has been accompanied by an increased demand for such grains in the Western European countries. In the 1958-59 marketing year, three-fourths of our exports went to Western European countries. However, recent developments reported by the *Wall Street Journal* indicate that this large market may not continue, because of agricultural commodity control plans of the six-nation European Economic Community. These plans are designed to develop self-sufficiency in agriculture within the European Common Market.

FEED GRAIN EXPORTS



Source: U.S. Department of Agriculture, *Agricultural Situation,* March, 1960, p. 9.

State's General Expenditures Up

According to data released by the Bureau of the Census, general expenditures of the 49 states rose to a record high of $26.0 billion in fiscal 1959, an increase of $2.5 billion, or about 10 percent, over fiscal 1958. These increases appeared in all states with the exception of Connecticut, where expenditures declined 17 percent. Increases of more than 25 percent occurred in two states, Kentucky and Mississippi.

The four major functions requiring state expenditures — education, highways, public welfare, and health and hospitals — accounted for $2.2 billion of the $2.5 billion increase. The states spent $8.1 billion for education, an increase of 10 percent over fiscal 1958. The major portion, $4.8 billion, went to local governments for support of public schools. State expenditures for highways amounted to $7.6 billion, 14 percent more than in the previous fiscal year. Nearly 80 percent of this amount was spent for construction and maintenance of regular highway facilities. Expenditures for public welfare totaled $3.2 billion, 9 percent more than fiscal 1958, and outlays for health and hospitals rose 8 percent to a total of $2.3 billion.

Missile Employment Rises

Nearly a million workers were engaged in the production of missiles and aircraft during October, 1959, about the same as in October, 1958, according to the annual survey of missile producers and aircraft plants conducted by the Bureau of Employment Security. This survey covered nearly 500 establishments, which included the major missile producers and all aircraft plants with 200 or more employees.

Missile employment in October, 1959, totaled nearly 400,000 persons, an increase of 16 percent from the same month in the preceding year. However, this gain in total missile employment was down from the 38 percent rise that occurred between October, 1958, and October, 1959. Almost 80 percent of total missile employment was in three industries — aircraft and parts (126,000), ordnance and accessories (101,000), and electrical machinery, equipment, and supplies (87,000).

LOCAL ILLINOIS DEVELOPMENTS

Most of the available measures of Illinois business activity showed gains in March over the preceding month. A 54 percent increase in construction contracts awarded was most striking, though primarily seasonal in character, but advances were also reported for life insurance sales, bank debits, coal production, petroleum output, electric power, department store sales, and farm prices. As compared with March a year ago, construction contracts were down 8 percent, but coal and electric power output were up 22 percent and 9 percent, respectively.

Illinois Labor Force Estimates for 1965

The Illinois State Employment Service has estimated that the Illinois labor force will total 4,875,000 in 1965, an increase of 20 percent over 1955. The number of professional and technical workers is expected to grow by 37 percent over the decade, at the end of which they would make up nearly 11 percent of the total. Clerical and sales workers will account for 24 percent of the labor force after a 27 percent increase from their 1955 total, according to the projection. Skilled craftsmen, semiskilled operatives, and proprietors and managers are also expected to show greater percentage gains over 1955 than the total, whereas an increase of only 13 percent in the number of service workers over the same period is anticipated. Declines of 3 percent in the number of laborers and 15 percent in the number of farmers and farm workers is projected. The latter group will represent only an estimated 4 percent of the Illinois labor force in 1965.

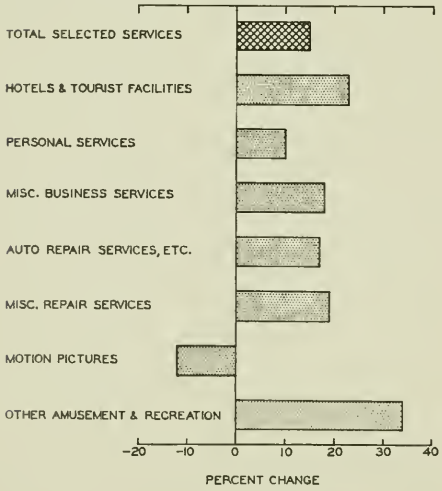
Rise in Steel Capacity

According to data released by the American Iron and Steel Institute, annual steel capacity in Illinois amounted to 12.8 million tons at the beginning of 1960, compared with 12.4 million tons on January 1, 1959, an increase of 3.3 percent. Although the increase in steel capacity of 404,000 tons was down from the previous year's gain of 837,000, it represented almost 45 percent of the tonnage capacity added throughout the country.

This year's growth in the state's annual steel capacity was mostly the result of the addition of eight more furnaces, and most of this gain came at mills in the Chicago metropolitan area. In contrast, the gain in annual steel capacity from 1958 to 1959 was due to improved performance, since the number of furnaces was unchanged.

Annual steel capacity in the United States as of January 1, 1960, amounted to 149 million tons, 937,000 tons more than the previous year's capacity. At the beginning of 1960, Pennsylvania, the largest steel-producing state, had an annual capacity of 39.1 million tons, or slightly over one-fourth of the country's total capacity, followed by Ohio with 28.3 million tons and Indiana with 18.4 million tons. Illinois ranked fourth, with about 9 percent of the country's total capacity.

PERCENTAGE CHANGES IN NUMBER OF ILLINOIS ESTABLISHMENTS, SELECTED SERVICES, FROM 1954 TO 1958



Source: U.S. Department of Commerce, *1958 Census of Business, Selected Services.*

Public Aid Increases

The Illinois Public Aid Commission recently announced that 380,644 persons had received $18.5 million from the five public assistance programs in February. The report shows that the number receiving assistance is declining, but the amount of assistance received by those on the public rolls is increasing. In February the average grant amounted to $48.39 per person as compared with $44.96 per person in February, 1959.

Of the five public assistance programs, aid to dependent children accounted for 39 percent of persons receiving public aid and 31 percent of total aid expenditures. About 36 percent of the persons receiving public assistance were on the general assistance rolls and these persons received 30 percent of total public aid expenditures. Assistance to the aged went to nearly 20 percent of the persons receiving aid but amounted to 29 percent of total expenditures. Assistance for the blind and disability assistance accounted for the remaining portion.

Establishments in Selected Services Rise

According to the *1958 Census of Business,* the number of establishments in selected service trades in Illinois increased from 47,000 in 1954 to nearly 54,000 in 1958, a gain of 15 percent. This increase is in contrast to the 15 percent decline in the number of retail establishments reported in the April issue of the *Illinois Business Review.* Receipts of establishments in these selected services were nearly $2.6 billion in 1958, 28 percent higher than the 1954 level.

The accompanying chart indicates the percentage change in the number of these establishments in Illinois from 1954 to 1958. Of the seven different kinds of business included, the motion picture business was the only one that experienced a decline in number of establishments during the period. The number of amusement and recreation establishments, excluding motion pictures, showed the greatest percentage increase of any of the service trades included, with a gain of 34 percent.

The number of service establishments located in the state's eight standard metropolitan areas showed gains of 11 percent from 1954 to 1958, compared with an increase of 29 percent in the remainder of the State. However, the receipts of the establishments in the standard metropolitan areas were up 29 percent, compared with a 20 percent gain for those in the rest of the State.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1960

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$37,380[a]	1,293,963[a]	$512,142[a]		$20,618[a]	$17,276[a]
Percentage change from	Feb., 1960	−0.4	−0.1	−5.2	+21	+16.8	+3.5
	Mar., 1959	+4.0	+3.0	−0.6	−1	+6.4	+3.9
NORTHERN ILLINOIS							
Chicago		$27,253	956,620	$381,465		$19,105	$14,991
Percentage change from	Feb., 1960	+22.8	+0.3	−5.5	+20	+17.4	+3.6
	Mar., 1959	+26.2	+1.6	−0.6	0	+6.6	+3.7
Aurora		$ 802	n.a.	$ 8,451		$ 83	$ 156
Percentage change from	Feb., 1960	+185.4		+3.0	+29	+14.0	−8.9
	Mar., 1959	+60.7		+10.9	−8	+12.2	+2.9
Elgin		$ 510	n.a.	$ 5,406		$ 50	$ 119
Percentage change from	Feb., 1960	+286.4		−0.6	n.a.	+10.2	+3.6
	Mar., 1959	+88.2		−2.1		+3.4	+22.6
Joliet		$1,075	n.a.	$ 9,534		$ 93	$ 113
Percentage change from	Feb., 1960	+182.2		−6.5	+22	+7.2	+6.3
	Mar., 1959	−45.2		+2.8	−6	+11.4	−7.9
Kankakee		$ 68	n.a.	$ 4,389		n.a.	$ 79
Percentage change from	Feb., 1960	−87.7		+0.2	n.a.		+24.3
	Mar., 1959	−60.9		−1.7			+34.9
Rock Island-Moline		$ 770	28,424	$ 9,723		$ 114[b]	$ 190
Percentage change from	Feb., 1960	+89.7	−1.9	−3.7	n.a.	+7.3	+10.8
	Mar., 1959	−77.5	+7.5	−2.1		+8.5	+3.4
Rockford		$ 694	55,156[c]	$16,601		$ 227	$ 270
Percentage change from	Feb., 1960	−70.3	+0.2	−8.7	+25[c]	+15.4	+4.5
	Mar., 1959	−35.4	+9.6	+7.4	−6	+18.5	+7.6
CENTRAL ILLINOIS							
Bloomington		$ 677	10,929	$ 4,669		$ 73	$ 127
Percentage change from	Feb., 1960	−90.3	−3.3	−6.4	n.a.	+7.7	+10.2
	Mar., 1959	−21.5	+23.8	−2.2		−5.0	+11.9
Champaign-Urbana		$ 538	15,509	$ 6,820		$ 81	$ 125
Percentage change from	Feb., 1960	+174.5	−1.7	−4.3	n.a.	+8.6	+4.9
	Mar., 1959	+8.7	+17.0	−4.8		+6.0	+4.8
Danville		$1,047	14,310	$ 5,134		$ 48	$ 67
Percentage change from	Feb., 1960	+120.4	−6.5	−1.8	+22	+3.8	−13.5
	Mar., 1959	+287.8	+7.3	−0.5	−18	−1.2	−4.3
Decatur		$ 382	36,455	$ 9,867		$ 120	$ 119
Percentage change from	Feb., 1960	−19.2	−1.0	−4.4	+27[c]	+8.3	−7.7
	Mar., 1959	−49.7	+0.9	−0.1	−15[c]	−0.6	−12.6
Galesburg		$ 227	9,620	$ 3,678		n.a.	$ 50
Percentage change from	Feb., 1960	+482.1	−4.6	−7.6	n.a.		+18.2
	Mar., 1959	+58.7	−1.0	−10.0			+4.6
Peoria		$1,389	60,444[c]	$15,077		$ 236	$ 346
Percentage change from	Feb., 1960	+15.7	−0.3	−5.3	+29	+5.8	+16.1
	Mar., 1959	−27.2	+7.3	−3.5	−11	−3.9	+19.5
Quincy		$ 95	11,243	$ 4,364		$ 49	$ 72
Percentage change from	Feb., 1960	−18.2	−7.5	−6.4	+33	+3.7	−7.7
	Mar., 1959	−72.9	+15.1	−0.8	−9	+1.3	−11.2
Springfield		$ 951	40,479[c]	$11,156		$ 136	$ 279
Percentage change from	Feb., 1960	−22.1	−0.3	−3.9	+23[c]	+5.5	−14.8
	Mar., 1959	−24.3	+14.3	−3.5	−13[c]	+5.3	−2.7
SOUTHERN ILLINOIS							
East St. Louis		$ 51	17,101	$ 7,421		$ 153	$ 79
Percentage change from	Feb., 1960	−19.0	−0.2	−5.2	n.a.	+15.7	+15.7
	Mar., 1959	−67.1	+11.6	−7.4		+1.8	+5.8
Alton		$ 796	25,803	$ 4,522		$ 50	$ 41
Percentage change from	Feb., 1960	+489.6	+2.5	−1.1	n.a.	+11.5	+12.9
	Mar., 1959	+110.0	−7.8	+0.2		+5.2	+0.6
Belleville		$ 55	11,871	$ 3,865		n.a.	$ 53
Percentage change from	Feb., 1960	−66.0	−1.0	−7.1	n.a.		+6.7
	Mar., 1959	−85.3	+21.5	−7.2			+12.8

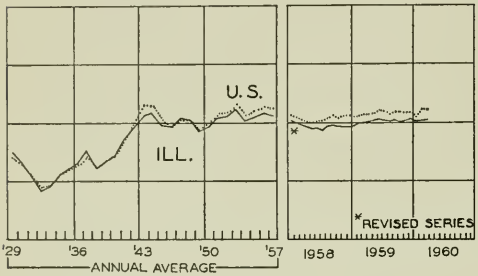
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for February, 1960. Comparisons relate to January, 1960, and February, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending April 1, 1960, and April 3, 1959.

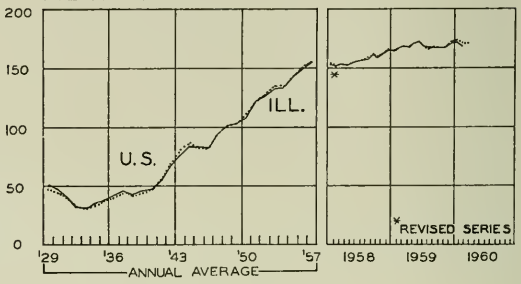
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

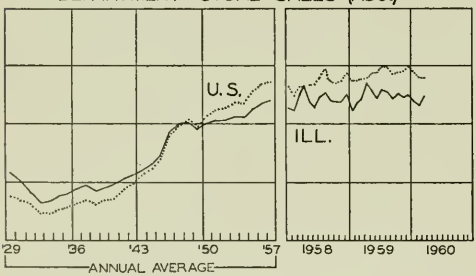
EMPLOYMENT MANUFACTURING



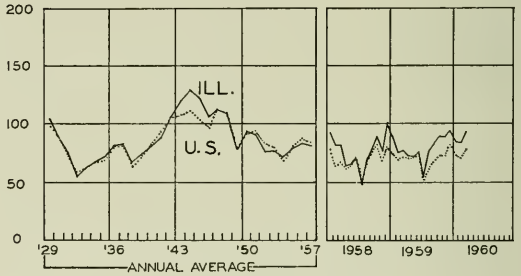
AVERAGE WEEKLY EARNINGS — MANUFACTURING



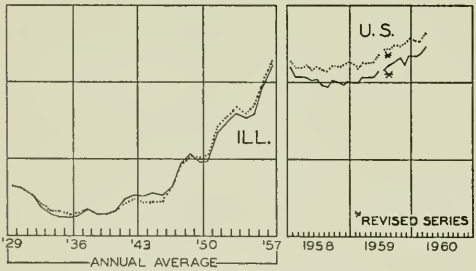
DEPARTMENT STORE SALES (ADJ.)



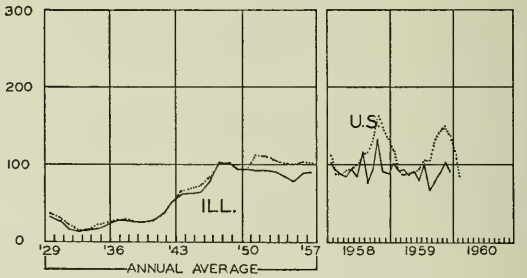
COAL PRODUCTION



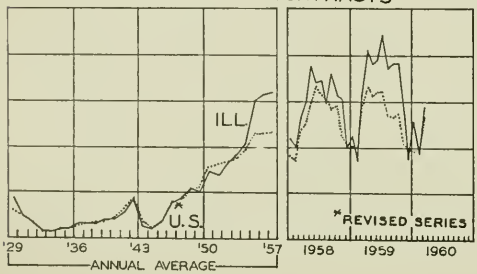
BUSINESS LOANS



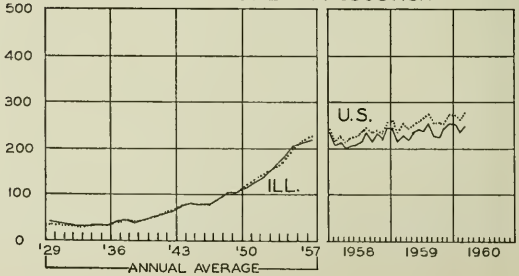
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MAY

Industrial production increased in May for the first time since January. The principal factor in the advance was increased output of automobiles, which rose 5 percent above April and 12 percent above May, 1959. Greater production of some types of consumer goods and business equipment helped to counterbalance the continued decline in steel production, where the rate of capacity utilization fell from 80 percent in April to 71 percent in May. As a consequence, the index of industrial production rose from 165 (1947-49 = 100) in April to 167 in May.

The April spurt in retail sales did not carry over into May. The seasonally adjusted total fell from $18.9 billion in April to $18.4 billion. Auto sales were high, but the 567,000 American-built cars delivered by dealers amounted to only 7 percent more than May, 1959, the lowest year-to-year increase in 1960. Inventories of cars continued at a record high.

Capital Expenditures Near Peak

First-quarter outlays on new plant and equipment by business firms amounted to a seasonally adjusted annual rate of $35.1 billion, only $100 million under the original March estimate for that period and $1.5 billion above the rate for the preceding quarter (see p. 5). In addition, the latest report anticipates that spending in the second quarter of this year will be at an annual rate of $37.0 billion, an estimated gain of more than 5 percent over actual expenditures in the first quarter.

However, the current projections indicate lower rates of spending in the second half of the year than did the March report. The latter had anticipated an annual rate of $38.0 billion for the last six months of 1960, whereas the new survey projects the third-quarter rate at $37.5 billion, an increase of only 1.4 percent from the expected second-quarter rate.

Construction Unchanged

The seasonally adjusted annual rate of new construction amounted to $53.9 billion in May, the same as the revised figure for April. A decline of slightly more than $100 million in the rate of private construction was partly offset by a rise in public construction. Most of the reduction occurred in private residential building, but a number of other types of private construction showed small declines and none increased. The increase in public construction was centered in nonresidential buildings, but the $200 million gain in the annual rate for this category was almost offset by a decline in construction of military facilities. Small advances were reported for highways, public service enterprises, and conservation and development projects.

When the unadjusted May figures are compared with May a year ago, the total of $4.5 billion in construction spending was down 5 percent. Private construction of $3.2 billion was off 4 percent and public construction 7 percent. A drop of 11 percent from the May, 1959, expenditures on residential buildings was the principal factor in the contraction of private spending from the year-earlier month. Most other types of private construction showed gains between the two periods.

More Consumer Debt

The short- and intermediate-term debt of consumers expanded by a seasonally adjusted $692 million in April, raising the total outstanding to $52.2 billion. The latter figure represents an increase of 14 percent over April 30, 1959, and is equal to 15 percent of disposable personal income. Comparing the April increase with the $436 million added in March, it is apparent that the annual rate of credit expansion rose by over $3 billion in April.

Instalment debt accounted for $533 million of the rise, and nearly half of this was automobile paper. A big increase also occurred in other consumer goods paper. Total instalment credit outstanding at the end of April amounted to $40.3 billion. Noninstalment debt increased $159 million during the month, mostly as a result of additions to charge accounts.

April Sales Peak

Total manufacturing and trade sales rebounded $1.2 billion in April, after declining by $900 million in March. This brought the seasonally adjusted volume of business in April to $62.5 billion, of which almost half was accounted for by manufacturers' sales and nearly a third by retail sales. Retailers got $700 million of the increase, with the remainder divided evenly between wholesalers and manufacturers. Durable goods accounted for half of the retail increase and nearly all of that at the wholesale level, but nondurables contributed all of the gain by manufacturers. Inventories rose in line with sales.

SPACE-SATELLITE BROADCASTING · · · By Dallas W. Smythe · · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

The Business Outlook

The stock market took off in early June and scored the sharpest weekly advance in several years. Initiating the rise was a reduction in the Federal Reserve rediscount rate from 4 to 3½ percent. This trivial economic event was, in effect, merely a belated official recognition of the disappointing business conditions experienced so far in 1960. Also cited as a basis for the spurt was an alleged high rate of auto sales in May; actually, the seasonally adjusted rate of sales was lower than in April. Such is the logic of unthinking speculation!

The rise in stock prices despite business weakness is reminiscent of the abortive market recovery in the summer of 1937. The analogy is close enough to warrant the interested reader's taking time to look up the charts showing what happened that year.

Beginning of Recession

Acting as underpinning for the soaring speculative fever was the recent rash of optimistic forecasts from Washington and business executives. The new consensus on the outlook holds that the current slowdown in business is healthy and will lead to a new pickup in the autumn. The possibility that this may be as badly mistaken as the optimistic consensus prevailing last December is studiously ignored.

The only sense in which a correction took place in April was that some retreat from the first-quarter extreme occurred. Business inventory accumulation dropped back from an annual rate of over $10 billion to $3.5 billion. This offered some hope that any further adjustment would be small. However, two points should be noted. First, the April inventory shift was exaggerated by a temporary surge in demand with improvement in the weather. The spring quarter as a whole will probably average higher than April — say, $5.5 billion — but still be down almost $5 billion from the first-quarter rate.

The second is that inventories have to be considered in relation to changes in consumer credit. The rate of expansion of the latter jumped from $5.2 billion in March to $8.4 billion in April. Thus, approximately half of the April improvement on inventory account was offset by the shift on consumer credit account. These changes were together contributing $12 billion in April as against $15 billion in March. On any realistic appraisal, this $12 billion rate is too high to be sustained, so that a further and more substantial decline is likely to occur in the months ahead.

Business inventories are currently more than $1 billion above the previous peak reached in 1957 and are still rising. The Commerce Department pointed out that the ratio of inventories to sales remained stable in April. Over the past year, however, the ratio has been rising, and with higher inventories and lower sales it rose further in May. Allowing for the long-term decline in the ratio of inventories to sales, stocks are already somewhat above normal, and further increases can only add to the excess. At a minimum, accumulation must stop, and a swing to liquidation will probably occur before the end of the year. This reversal will dominate the movement of the economy in the months ahead. Furthermore, consumer credit expansion is likely to cease with any decline in incomes, as in 1958. The combined effect represents a deflationary potential of $15 billion to $20 billion, far more than any prospective improvement in other factors.

Some Elements of Stability

Foremost among the factors that are supposed to sustain the boom are business outlays for new plant and equipment. What has become increasingly evident, however, is that no boom in business capital formation is in prospect. We are already at the peak rate for the year, assuming the anticipated second-quarter average of $37 billion is being realized. This would be $1.8 billion above the first quarter, but preliminary indications from other data — such as construction activity, production, and new orders — fail to support the survey anticipations. Even if met, the comforting predictions fall short of what is needed, and the indicated stability for the rest of the year turns the outcome back to the unstable factors. If expectations are not realized, the decline will add to the total of deflationary forces.

Residential construction is more of a question mark. Homebuilding has been declining almost steadily during the past year, and housing starts in recent months have fallen over 20 percent from last year's rate. However, the money market has eased, and even though mortgage interest rates are continuing at the peak, more funds are available to builders. In addition, the Housing Administrator decided to use the authority of 1958 legislation to reduce further the required downpayments on medium-cost houses. The effects of these changes cannot yet be effectively gauged, but it would not be surprising if the decline were at least temporarily halted. On the other hand, there are as yet no indications of another substantial recovery in building like those that helped lift the economy out of earlier postwar recessions.

Government spending also seems likely to remain comparatively stable. Federal purchases of goods and services have drifted off during the past year, and this represents a definite decline in real terms. The movement came to an end with the hiring of the census takers, but the disappearance of this temporary influence will make for lower rates again later in the year. The Administration is still firmly restricting expenditures. Even Khrushchev's belligerence in the Summit fiasco did not result in adding much over $1 billion to the defense budget. Nevertheless, expenditures will tend to increase in the year ahead, and any unfavorable economic developments will hasten the rise. In real terms, however, the additional contribution will be very small this year and is hardly likely to exceed a half percent of gross national product by the middle of next year.

(Continued on page 8)

CORN—OUR GOLDEN CROP

Corn, which is appropriately called the backbone of American agriculture, has been a principal crop since the very early years of this country. It is one of the few important plants indigenous to the Western hemisphere and was extensively cultivated here centuries before the arrival of white men. In fact, a number of varieties had already been well developed by the Indians before the advent of the early explorers.

Corn quickly became a primary crop for early settlers because of its easy cultivation, good yields, and its qualities as a food for both man and animal. Although the size of the corn crop has undergone wide fluctuations from year to year, it has been gradually climbing. Annual production reached more than a billion bushels by 1870, an output which was doubled by 1890 with the filling in of the West and the development of efficient farm machinery. Between 1900 and 1935, production fluctuated between 2.3 billion and 2.7 billion bushels. The widespread use of hybrids has helped to produce an average annual crop of 3.3 billion bushels since World War II.

Corn has been cultivated in other parts of the world during the past four centuries. However, countries outside the Western hemisphere lag far behind in production. The United States alone annually accounts for about three-fifths of world output and is the principal exporter of corn, shipping out more than one-half the world total.

A Giant Crop

Corn is the leading crop of the nation. The total value of production in 1959 was set at $4.4 billion, or about one-fourth the value of the nation's entire field crops. More than 4.3 billion bushels were produced last year, surpassing the 1958 record crop by 500 million bushels. The spurt was related to the increase of 11 million acres in corn planting following the removal of the 25-year-old acreage allotments for this crop in November, 1958.

Some corn is grown in every state, but the seven states making up the Corn Belt annually produce nearly 70 percent of the total corn crop on less than 50 percent of the total corn land. The productivity of the region in corn growing results from its rich and well-aerated loams, moderate rainfall, and adequate growing season.

The most important utilization of corn is for the feeding of livestock, with about 90 percent of the nation's harvested corn being used for this purpose. Hog production in the Corn Belt region is especially influenced by the size of the corn crop. The number of hogs produced from year to year depends more or less on the price of hogs relative to the price of corn. In Illinois and most corn states, hogs consume about one-half of the corn fed to livestock, while cattle eat approximately one-fourth.

There is a diversity of uses for the remaining 10 percent of corn output. Broadly, they are the manufacture of starches, corn syrup, and other wet milling products (4 percent), food for human consumption (3 percent), alcohol production (2 percent), and miscellaneous, such as for seed (1 percent). In all, about one-fourth of the crop leaves the farm for marketing, of which more than half goes to other farms for animal feed.

Hybrid Corn

The development of hybrid seed corn, which together with the increased use of fertilizer and power machinery more than doubled the national per-acre yield between 1930 and 1959, is easily the most important crop improvement of the present century. Research and intensive experimentation toward finding effective hybrid strains did not occur until the turn of the twentieth century and was not developed on a large scale until the 1930's.

Only one-tenth of 1 percent of our corn acreage was planted with hybrid seed in 1930. Today, more than 92 percent of the total acreage is planted with such seed. Illinois and Iowa, the nation's top corn states, have been planting solely with hybrid seed since 1949. The effect of hybrids upon total production is partly revealed by the fact that in the period 1930-59, acreage declined 29 percent to 73 million acres, whereas production rose 87 percent to 4.3 million bushels. During the same period, yields per acre rose from 21 bushels to 52 bushels nationally and from 26 bushels to 67 bushels in Illinois.

Illinois — Commercial Corn Leader

Illinois has been a forerunner in the use and development of hybrid seed corn. Corn-breeding experiments were first begun at the University of Illinois Agricultural Experiment Station in 1896. The first hybrids suitable for the Corn Belt were developed at the McLean County Government Experiment Station at Bloomington in 1916. In addition, the early leadership of Illinois farmers in the hybrid field resulted from the fact that three of the four largest early hybrid seed companies were in Illinois. These four companies were instrumental in getting widespread distribution of commercial hybrid seed in Illinois and surrounding states during the 1930's.

Illinois and Iowa together account for approximately one-third of national production. Last year, Illinois harvested a record 673 million bushels valued at $727 million on more than 10 million acres.

Corn is not only the main source of feed for livestock in the State but is also a principal source of farm income. Cash sales of corn, which reached more than $378 million in 1959, accounted for approximately one-fifth of total cash receipts from all Illinois farm marketings, and made up about one-fourth of the national farm income earned from the sale of corn.

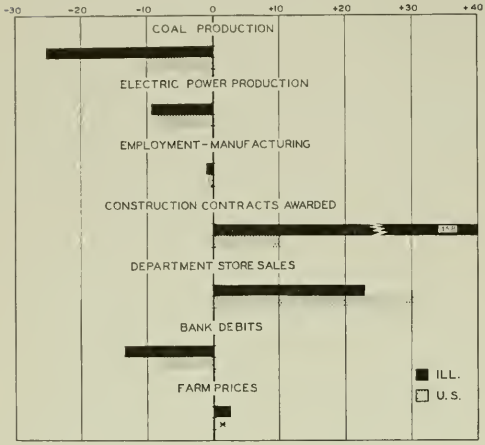
An average of 45 to 50 percent of the state's crop lands are used for corn planting. The magnitude of the crop is made vivid by the fact that one of every three square miles in Illinois has corn grown on it.

The state's major corn-growing area is on a line extending from east-central Illinois in Champaign County northwestward to Whiteside and Henry counties. Through this area corn yields averaged 75 bushels an acre, compared with 67 for the entire State, in 1959. The leading corn county last year was McLean (23 million bushels), followed by La Salle (22 million) and Livingston (19 million). All but seven counties in Illinois raise more than a million bushels annually.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes March, 1960, to April, 1960



* No change.

ILLINOIS BUSINESS INDEXES

Item	Apr. 1960 (1947-49 =100)	Percentage change from Mar. 1960	Percentage change from Apr. 1959
Electric power[1]	225.1	− 9.4	+ 2.0
Coal production[2]	69.9	−25.3	− 5.1
Employment—manufacturing[3]	101.2[a]	− 1.1	+ 0.2
Weekly earnings—manufacturing[3]	171.4[a, b]	+ 1.9	+ 1.2
Dept. store sales in Chicago[4]	134.0[c]	+ 8.1	+ 6.3
Consumer prices in Chicago[5]	129.5	+ 0.2	+ 1.6
Construction contracts awarded[6]	420.2	+45.8	+ 2.4
Bank debits[7]	204.0	−13.5	+ 0.7
Farm prices[8]	83.0	+ 2.5	− 2.4
Life insurance sales (ordinary)[9]	298.5	− 7.7	−10.0
Petroleum production[10]	118.8	− 3.5	+ 0.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Revised series. [b] Data are for March, 1960; comparisons relate to February, 1960, and March, 1959. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Apr. 1960	Percentage change from Mar. 1960	Percentage change from Apr. 1959
	Annual rate in billion $		
Personal income[1]	397.4[a]	+ 0.9	+ 4.9
Manufacturing[1]			
Sales	373.2[a]	+ 1.0	+ 3.0
Inventories	50.6[a, b]	− 6.8	− 0.4
New construction activity[1]			
Private residential	19.5	+ 9.5	− 9.7
Private nonresidential	15.8	+ 2.2	+10.0
Total public	14.2	+20.1	− 7.6
Foreign trade[1]			
Merchandise exports	21.0[c]	+11.1	+20.3
Merchandise imports	16.5[c]	+ 6.8	+ 6.2
Excess of exports	4.5[c]	+30.4	+133.6
Consumer credit outstanding[2]			
Total credit	52.2[b]	+ 2.0	+51.4
Instalment credit	40.3[b]	+ 1.6	+28.9
Business loans[2]	36.1[b]	+ 0.2	n.a.
Cash farm income[3]	25.7[c]	+ 3.3	+ 1.6
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	109[a, d]	0.0	+ 1.9
Durable manufactures	106[a, d]	− 1.9	+ 1.0
Nondurable manufactures	113[a, d]	+ 0.9	+ 2.7
Minerals	97[a, d]	+ 2.1	− 1.0
Manufacturing employment[4]			
Production workers	101	+ 0.1	+ 1.4
Factory worker earnings[4]			
Average hours worked	99	− 0.8	− 2.2
Average hourly earnings	171	− 0.4	+ 2.2
Average weekly earnings	169	− 1.2	− 0.0
Construction contracts awarded[5]	295	+10.3	−11.1
Department store sales[2]	154[a]	+11.6	+ 6.9
Consumer price index[4]	126	+ 0.4	+ 1.9
Wholesale prices[4]			
All commodities	120	0.0	0.0
Farm products	91	+ 0.8	− 1.4
Foods	107	− 0.5	− 0.4
Other	129	+ 0.1	+ 0.3
Farm prices[3]			
Received by farmers	89	0.0	− 1.1
Paid by farmers	121	+ 0.8	+ 1.7
Parity ratio	80[e]	0.0	− 2.4

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Data are for March, 1960; comparisons relate to February, 1960, and March, 1959. [d] 1957 = 100. [e] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960					1959
	May 28	May 21	May 14	May 7	April 30	May 30
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,402	1,404	1,376	1,379	1,383	1,422
Electric power by utilities mil. of kw-hr.	13,572	13,468	13,350	13,139	13,300	12,778
Motor vehicles (Wards) number in thous.	172	183	171	172	165	143
Petroleum (daily avg.) thous. bbl.	6,815	6,864	6,794	6,771	7,014	7,203
Steel 1947-49 = 100	109	118	122	124	128	154
Freight carloadings thous. of cars	640	637	640	642	643	688
Department store sales 1947-49 = 100	139	138	134	156	151	122
Commodity prices, wholesale:						
All commodities 1947-49 = 100	119.7	119.8	119.9	119.8	119.8	119.9[a]
Other than farm products and foods 1947-49 = 100	128.4	128.4	128.4	128.4	128.6	128.4[a]
22 commodities 1947-49 = 100	86.3	86.6	85.9	85.3	85.4	88.2
Finance:						
Business loans mil. of dol.	31,172	31,222	31,053	31,013	30,940	n.a.
Failures, industrial and commercial number	299	313	304	327	325	264

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for May, 1959. n.a. Not available.

RECENT ECONOMIC CHANGES

Manufacturers' Sales and Inventories

Manufacturers' inventories continued to rise in April, reaching $54.6 billion at the end of the month, $300 million above the March level. Sales also showed a $300 million advance during the month from $30.8 billion in March to $31.1 billion in April. Incoming orders, however, failed to keep pace with the gain in sales, with the result that unfilled orders fell for the fifth month in a row. At the end of the month the order backlog stood at $48.3 billion, down from $49.5 billion the month before.

About half of the April increase in inventories occurred in the durable goods industries. As shown in the accompanying chart, durable goods inventories have been rising steadily since last November and, by the end of April, had increased $2.7 billion, or 9 percent. The latest monthly advance amounted to $150 million, much smaller than the increases of the preceding three months, and left durable goods inventories at $31.9 billion in April.

While inventories continued to rise, manufacturers' sales of durable goods fell $100 million in April to $15.1 billion. As a result, the ratio of inventories to sales in the durable goods sector rose to 2.11 in April, compared with 1.94 a year ago.

Construction Contract Awards

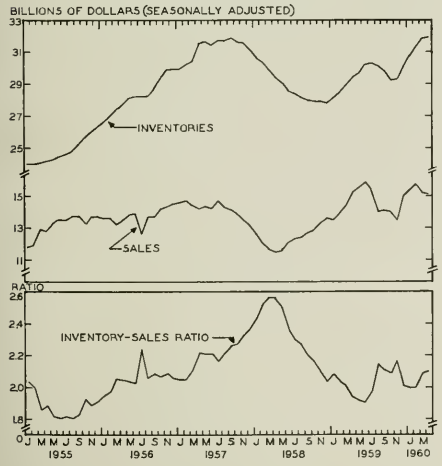
In April contract awards for future construction fell below year-earlier levels for the ninth consecutive month. According to the latest report by the F. W. Dodge Corporation, April awards dropped 11 percent below the same month last year to a little more than $3.3 billion. In March contract awards amounted to $3 billion.

Housing continued to lead the year-to-year decline as total residential building contracts fell 19 percent in dollar value from a year ago to $1.5 billion. The physical volume of dwelling units represented by April contracts totaled 110,000, down 22 percent from April, 1959. Nonresidential contracts also contributed to the decline, falling 12 percent to $1 billion from the April, 1959, level of $1.2 billion.

The declines in residential and nonresidential contracts more than offset increases in awards for heavy engineering work. April contracts for heavy engineering totaled $833 million, a gain of 9 percent over the same month last year.

On a cumulative basis, construction contracts awarded in the first four months of this year totaled $10.8 billion, 8 percent below the corresponding 1959 period. Of this amount, residential contracts accounted for $4.7 billion, off 14 percent from last year; nonresidential awards amounted to $3.6 billion, down less than one-half of 1 percent; and heavy engineering totaled $2.5 billion, off 4 percent from last year.

SALES AND INVENTORIES OF DURABLE GOODS MANUFACTURERS



Source: U. S. Department of Commerce.

Capital Expenditures

The latest survey by the Securities and Exchange Commission and the Department of Commerce indicates that business outlays for new plant and equipment may fall a little short of the $37 billion mark forecast earlier. Although first half expenditures are expected to continue to rise in the second quarter, the lastest figures indicate a slowdown in the rate of expansion during the second half of the year. Data by major industry group for the first three quarters are as follows:

BUSINESS CAPITAL EXPENDITURES
(Seasonally adjusted, billions of dollars at annual rates)

	Actual	*Anticipated*	
	1st Qtr.	*2nd Qtr.*	*3rd Qtr.*
Manufacturing	14.1	14.8	15.1
Durable goods	7.2	7.3	7.6
Nondurable goods	7.0	7.5	7.6
Mining	1.0	1.1	1.1
Railroads	1.0	1.1	1.2
Non-rail transportation	2.0	2.4	2.3
Public utilities	5.8	5.8	5.9
Commercial and other	11.4	11.9	12.0
Total	35.2	37.0	37.5

Foreign Trade

The value of commercial exports rose 3.5 percent in April to the highest level in almost three years. April shipments of goods, other than military aid, totaled over $1,691 million, compared with $1,634 million in March and $1,343 million a year ago. The April figure was the highest since May, 1957, when exports amounted to $1,711 million.

Whereas exports expanded in April, imports fell below the previous month by about 9 percent. In its latest report, the Commerce Department stated that April purchases from abroad were reduced to $1,257 million from the March level of $1,375 but were 3 percent greater than the $1,220 million of April, 1959. Much of the decline in imports resulted from a decrease in metals imports, as the United States made fewer purchases of foreign copper, aluminum, and steel mill products.

Through the January-April period, commercial exports totaled $6,307 million, 22 percent above the $5,186 billion level for the same period last year. At the same time imports were up only 6 percent, from $4,787 million in 1959 to $5,057 million in the first four months this year. Thus, the export surplus for 1960 has already reached $1,250 million, compared with $1,127 million for all of 1959.

SPACE-SATELLITE BROADCASTING: THREAT OR PROMISE?

DALLAS W. SMYTHE, Research Professor, Institute of Communications Research

Recent technical advances have opened up the prospect of a vast increase in international broadcasting and point-to-point communications through the use of space satellites. This is no longer in the realm of science fiction. The capability now exists in the United States and in the Soviet Union for relaying communications from space satellites to people all over the world.

However, the world is quite unprepared for this development. No provision has been made to reach international agreement on the use of this new capability. Its utilization by the individual countries in the absence of a prior agreement on how it is to be used carries the threat of chaos in the air waves and of heightened tension in international relations.

The Nature of the Threat

Serious international problems arising out of the use of the air waves for communications already exist. One is the growing competition for frequencies. Former Commissioner E. M. Webster of the Federal Communications Commission has characterized this as follows:

> The extreme excess of the demand for frequencies in the post-war world over the available supply has now made virtually all countries *competitors* for frequencies. This has enormously complicated telecommunications negotiations from the time of the first post-war conference at Atlantic City in 1947 . . .
>
> New empires can be built in the radio frequency field just as they can in any other field. It is perhaps significant to note here that when the Russians recently walked out of the Provisional Frequency Board meeting in Geneva, . . . they accused the United States of "expansionist tendencies," . . . trying to use its influence to take all and to leave the other fellow nothing. It is indeed unfortunate that the situation among our own government and industrial users parallels this so closely: each fellow tries to get all he can and then accuses the other fellow of leaving him nothing.

The military services press for greater allocations of the radio spectrum for their point-to-point communications, as do industrial and shipping interests. Scientists complain of inadequate provision of frequencies for astronomical and other space research.

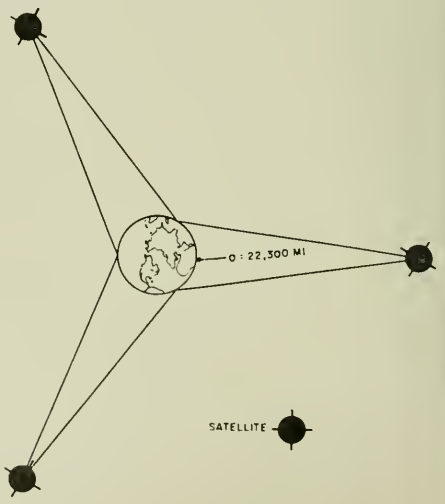
Closely related to the problem of frequency allocation is that of the use to be made of frequencies. In the absence of control over use, frequencies assigned to countries for international broadcasting have often been used for aggressive propaganda purposes. The League of Nations did adopt a set of principles in 1938 prohibiting broadcasts "of such a character as to incite the population of any territory to acts incompatible with internal order or security" and emphasizing the importance of ensuring the "accuracy" of broadcast information concerning international relations. However, these principles have not been applied. In the years since World War II the systematic use of aggressive propaganda broadcasting to other countries, with its concomitant practice of jamming, has been one of the major sources of tension in the cold war.

Inadequate transmitting, receiving, and other broadcasting facilities in the underdeveloped countries may be said to be another international problem in the same sense that the economic and social development of these countries is an international problem. Some 117 countries, with 58 percent of the world's population, have less than 5 radio receivers per 100 inhabitants. Few countries in Africa have as much as 1 radio per 100 persons, Asia is almost as poorly equipped, and much of Central and South America is inadequately supplied. These conditions prevent effective utilization of broadcasting for educational and informational purposes, although it clearly has advantages over other media in areas where illiteracy is high, transportation is poor, and foreign exchange is scarce. So far as the obstacles to the use of broadcasting in the less developed parts of the world are overcome — whether by aid from the industrially advanced countries or through self-development — the competition for radio frequencies will be intensified and concern over their use for propaganda purposes will be increased.

These international problems will grow and others will arise as a result of the development of the technique for space-satellite communications. Steps are already being taken to make use of this technique. In the United States an "active" relay system with world-wide coverage via three satellites orbiting near the equator so as to maintain fixed locations in relation to the earth's surface at an elevation of 22,300 miles (plus four satellites at somewhat lower altitudes to cover the polar regions) is under development. (See diagram.) A system of more limited range is now being pushed up, consisting of a reflector and active satellites at an altitude of 1,000 miles. These systems are designed for military use, but similar systems could provide links between all continents for high-quality civilian radio and TV signals and for commercial point-to-point communications. The U.S.S.R. is proceeding with the development of its own space-satellite communications system.

The danger inherent in the development of space-

DIAGRAM OF COMMUNICATIONS SATELLITES



satellite communications lies in the additional strain it will place upon international relations in the absence of international agreements on policy and organization to control its use. As things now stand, the world faces the probable extension of cold war rivalry by this means. The first power to begin extensive use of this new means of communication will initiate the deadly cycle. The second power will then try to outdo the first with a rival space-satellite communications system, and so on until international agreement becomes almost impossible to achieve. The extension of radio and TV broadcasting range to the whole world will intensify the propaganda use of these media.

Inadequacy of Present Organization

Unfortunately, there exists today no international organization with stature adequate to cope with the urgent problems in the use of the radio spectrum for communications. The consequence is that these problems are dealt with unilaterally or bilaterally at the national level. There they are handled as political issues by foreign offices and heads of state, or — at the lower level — by specialized national administrative agencies or the private corporations which operate communications facilities. The further consequence is that these problems, as between the great powers, are pawns of cold-war pressures, while the needs of the underdeveloped countries in this area languish for want of proper international organization as a means to solution.

The International Telecommunications Union, some might think, should be able to provide the needed forum for policy-making and administration. The ITU for more than a century has been developing integration in technical standards, operating procedures, and rates of common carriers of communications by wire and radio. It also administers the policy on allocation of radio frequencies which is determined periodically by its more than 100 member nations. It is the United Nations' special agency for telecommunication affairs. It maintains close relation both with the UN and with other special agencies such as UNESCO, as well as with such regional organizations as the European Broadcasting Union and the International Radio Organization. It may well be that within the experience of the ITU and its associated organizations there may be found the elements of organization and policy which might be extended to the world-wide arena as a means of solving the present international problems of broadcasting.

The ITU, however, does not have the jurisdiction to tackle these problems in the *use* of radio frequencies once allocated. The best evidence of its strength and weakness in this regard is supplied by its position on space communications. In its 1959 Plenipotentiary Conference, the ITU adopted a resolution on "Telecommunication and the Peaceful Uses of Outer Space Vehicles." Its concerns in this connection are stated to be the provision of international cooperation and agreements for (1) allocation of radio frequencies, (2) standards for telecommunication equipment, (3) codes for transmission of information from space vehicles, and (4) adaptation of the general telecommunication network to meet the data-processing requirements on the surface of the earth. It is significant that here the ITU was declaring its capacity to handle international problems in the stated respects for *all outer space vehicles,* not simply those concerned with satellite broadcasting. This technical competence marks the boundary of ITU's jurisdiction. For the same resolution concludes with a plain warning:

> It is important to note that . . . the part to be played by the I.T.U. in the use of outer space will be limited to technical and operational aspects of the new telecommunications means to be developed. As regards the possible purposes for which these means are used, the I.T.U. is not responsible for contemplating any regulation or control.

It would be quite wrong to assume that, having no jurisdiction to deal with the *use* problems of international broadcasting, the ITU ignores them. On the contrary, we find it warning us of the significance and gravity of the problems and of the fact that no adequate organization exists for their solution. Thus, in its 1959 report to the UN Economic and Social Council quoted above, the ITU says:

> Telecommunication already plays a very important part in the modern world with its influence on the political, economic and social levels. Moreover, scientific and technical progress in the next ten years will introduce unprecedented achievements in this field and it is no exaggeration to assert here and now that telecommunication will play a primary role both on the national and on the world levels and it could also be pointed out that the most difficult problems are not generally of a purely technical nature and that telecommunications questions should more and more command the attention of governmental authorities at the highest level. . . . Obstacles to freedom of information as far as transmission are concerned will hence soon be only of a political and economic nature and the I.T.U. can but express the hope that the appropriate international organizations will soon manage to overcome them.

If not the ITU, then why not look to UNESCO to solve the use problems confronting international broadcasting? UNESCO as presently constituted is not adequate to the task of accommodating the political, economic, and social pressures which comprise the obstacles to orderly international use of radio frequencies (be it space-vehicle broadcasting, high-frequency international broadcasting, or the development of large programs for the use of radio for underdeveloped countries). For this there are obvious reasons. UNESCO's jurisdiction is much broader than these crucial problems. Even its Division of Mass Communications has its efforts spread over cinema, print media, and visual aids as well as TV and aural broadcasting. UNESCO is thus organizationally too diffused over the whole cultural area to be appropriate as the means for solving the political and economic problems of international cooperation in telecommunications. Moreover, UNESCO is not invested by its member states with the staff, budget, or responsibility needed to cope with these problems. UNESCO has, within its limited resources, done good work with some aspects of radio and TV in relation to underdeveloped countries, and it has done excellent work in its efforts to improve the quality of TV and radio programming. But it involves no invidious reflections on the hard-working personnel of UNESCO to conclude that it was neither established to conduct, nor is now able to conduct, the essentially negotiatory and administrative functions required to solve the use problems of radio which concern us here.

New Basis for Negotiation

This analysis leads to a plea for the creation of a new specialized agency of the United Nations to fill the vacuum existing in the area of use problems of radio.

It should be designed initially for international negotiations leading to agreements on such problems as space-satellite broadcasting, high-frequency propaganda broadcasting, and provision of radio aid to underdeveloped countries. In designing this new agency, provision should be made for it to take on whatever administrative duties are entailed by the agreements. As concerns staff, men of the stature appropriate to international negotiation on nuclear fission and disarmament should be named to conduct it.

It would be presumptuous to speculate further as to its program and organization. One suggestion, however, is in order. There is to be found in the experience of the European Broadcasting Union and the International Radio Organization much pertinent information bearing on the question of how international collaboration can be achieved for joint operation of an international network for broadcasting. In particular, the experience with "Eurovision" (the thirteen-member international TV network in Western Europe) and with "Intervision" (the Socialist Bloc counterpart) may provide a prototype for the international organization which some day may operate what might be called "The Space-Satellite Broadcasting Agency."

In this summary presentation, many pertinent problems have been slighted. For example, differences in language, national institutions, and mores will present severe problems in international programming for space-satellite broadcasting. They may force such broadcasting to begin on a lowest common denominator of programs of weather information, public events, and sports events. Problems of multiple engineering standards for TV and questions of available spectrum space for broadcast channels which existing broadcast receivers will accept have also been passed over. But these and other problems as yet unforeseen exist in order to be solved. They will be solved by following the policy which former FCC Commissioner E. M. Webster observed to be implicit in international frequency allocation: "Each user and group of users has been forced by circumstances to accept a policy of 'give and take,' realizing that he must give in some instances in order to receive in others." Our technology has offered us the means to use radio for world purposes of a constructive kind. The unacceptable alternative is to use it to promote destructive tendencies.

The Business Outlook

(Continued from page 2)

By a quirk of seasonal adjustment, state and local purchases jumped almost $2 billion from the fourth quarter of 1959 to the first quarter of 1960, helping to achieve the "magic number" of $500 billion for gross national product. By reason of the same quirk, the advance in expenditures will now be slower. In real terms, the advance over the past year represented an increase of about $1.5 billion in the rate. There are already indications that even this moderate rate of increase cannot be depended on in the year ahead, and in the event of a downturn, with consequent loss of tax revenues, programs will be more definitely restricted.

Net exports have achieved a sharp turnabout and at the $1.2 billion first-quarter rate had contributed almost $2 billion to the over-all advance from the fourth quarter. Some temporary gains in exports — mainly in cotton but also in jet aircraft and some other items — contributed to this improvement. These will not provide any further stimulus and, in addition, our basic competitive disadvantage in relative costs at existing exchange rates will make gains in trade position difficult. Although some further increase may occur, it is not likely to be significant in the over-all picture.

Threat of More Serious Decline

All the components of gross national product except inventory change and consumption thus promise to remain comparatively stable on a constant dollar basis, and in the aggregate this stability may be expected to persist through the rest of the year. This is not undesirable in itself, though it falls short of the growth needed to sustain investment. Of greater immediate significance, however, is the fact that inventory changes will be the one decisive factor moving the total. This means that total nonconsumption expenditures will be likely to fall by some $5 billion in the second quarter and, since even a reduced rate of accumulation is not warranted, will probably continue down in the last half of the year.

Consumption has risen so steadily in recent years that many now expect it always to increase. Since the primary determinant of consumption is income, this expectation is illogical. It may be conceded that there are some positive trend components in consumption which tend to persist through adverse changes in income. In part, these reflect the effects of price increases in such areas as rent, medical care, utilities, and personal business. The real part, after these price effects are removed, is very small — say, $2 billion on a year-to-year basis. This is less than 1 percent of total consumption at a rate of $320 billion, and it may easily be offset by a small upward shift in the rate of saving. Such a shift occurred in 1958 and is likely to occur whenever consumer credit falls from expansion to liquidation or from a high to a low rate of expansion.

It may be pointed out that consumption is increasing in the second quarter — even though only a billion or two in real terms — and not decreasing along with the nonconsumption components of gross product. This, however, represents just the usual lag effect in receiving and spending income. Being temporary, it cannot signify any continuing stimulus to expenditures.

Personal income will, of course, be sustained by the automatic stabilizers. Under present programs these should cut any decline in disposable income to about half of the corresponding decline in gross product. Nevertheless, consumption cannot be expected to go its own way in a recession. It will be more stable, as usual, but contribute something to the deflation.

The logical way to look at the current situation, therefore, is to regard it as the early phase of an inventory recession and to ask, How far will the recession go? The answer lies in the behavior of fixed investment. If homebuilding and business capital formation hold comparatively steady, it may again be short and moderate. Even then it is likely to be at least as bad as 1958. The greater danger lies in wider liquidation, affecting not only business inventories but other kinds of assets and debt. If the recession breaks the speculative boom in the stock market — an eventuality to be feared, since stocks are priced for growth in profits and not for declines — the probability of widening liquidation will be distinctly increased.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Gains in Business Population

The *Survey of Current Business* for May, 1960, reported that the United States nonfarm business population reached nearly 4.7 million operating concerns on January 1, 1960, a gain of 75,000 firms, or almost 2 percent from the preceding year. This is a continuation of the small yearly net gains that have been characteristic of the past decade. There were 420,000 new businesses established during 1959, slightly more than in 1958; discontinued firms numbered about 345,000 in both years.

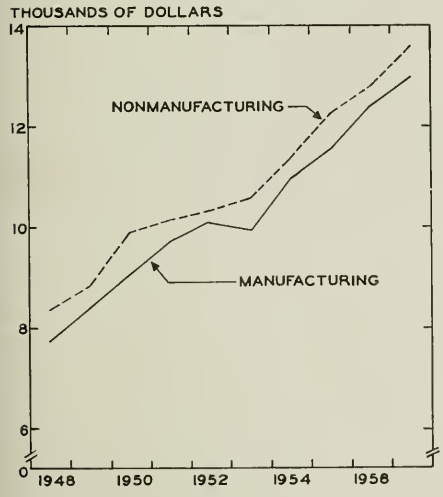
The recent rise was attributable to small net increases in all major industrial segments. Services continued to have the largest relative growth (2.9 percent), whereas manufacturing and retail trade experienced gains of only 0.9 percent and 1.0 percent respectively. The number of wholesale trading concerns increased 1.3 percent over the previous year, and contract construction firms rose 1.9 percent during 1959, after remaining virtually unchanged during 1957 and 1958.

New Statistics of Corporate Income

The United States Treasury Department has recently released its *Statistics of Income, 1957-58, Corporation Income Tax Returns.* This report provides summary financial statistics derived from a sample of all corporation income tax returns filed with accounting periods ending between July, 1957, and June, 1958. About 985,000 returns were filed, of which approximately 940,000 were for active corporations.

In addition to the usual size and industry data, this 1957-58 report contains much new financial information. For example, corporation returns are classified for the first time by size of profit ratio (net income on business receipts) and by size of turnover ratio (business receipts to total assets). Such an accumulation of data by ratio size classes for the whole corporate population provides a new framework for analyzing business operations. Also, the report contains tables that indicate the methods corporations use to compute depreciation and the frequency with which corporations use each of the 21 component accounts of the balance sheet appearing on the income tax return form.

CAPITAL INVESTED PER EMPLOYEE
IN CORPORATE INDUSTRY



Source: National Industrial Conference Board, *Business Record,* May, 1960, p. 6.

Foreign Travel

Data released by the American Society of Travel Agents indicate that Americans are now spending more money on foreign travel than on their combined expenditures for foreign automobiles, foreign textiles, and foreign newsprint. Foreign travel has become by far America's largest "import." Preliminary figures disclose that about 1.5 million Americans traveled abroad in 1959, an increase of nearly 5 percent over 1958. These tourists spent approximately $2.3 billion, nearly 10 percent more than the previous year's figure.

In 1959, 732,000 passports were issued or renewed, 8 percent more than in 1958. Of those receiving passports, the 60-to-76 age group received the most, with 138,000, followed by the 50-to-59 age group, with about 133,000 passports. These two groups accounted for more than two-thirds of all applicants.

During 1959, the rate of increase of American tourists traveling in Europe fell to about 50 percent of the 1958 surge, whereas the rate of increase in tourism to the Pacific and the Far East rose by 43 percent.

Capital Invested per Employee

According to the May, 1960, issue of *Business Record,* capital invested per employee in all corporate industry amounted to $13,230 in 1957, an increase of nearly $700 over the 1956 figure. Nonmanufacturing corporations had a capital investment per employee of about $13,540 in 1957, compared with an average of $12,910 per employee for manufacturers. Since 1948 manufacturers have increased their per-employee investment by 67 percent and nonmanufacturers have raised theirs by 62 percent.

The accompanying chart shows that during the ten-year period nonmanufacturing recorded increases each year in capital investment per employee, with the largest gain, $1,040, registered in 1950, when total capital investment rose $16 million and employment advanced only 2 percent. There was a decline of $180 in investment per employee in manufacturing during 1953, but in the following year this sector registered its largest increase, $1,040, because of a decline of 7 percent in employment and a rise of $4 billion in capital invested.

Among the five major groups making up the nonmanufacturing sector, the public utilities group had the highest per-employee investment in 1957, with an average of $31,220; over the ten-year period, it had increased its per-employee investment 86 percent. Mining was next, with $15,100 invested per employee, reflecting the sharpest growth of any industry, with a gain of 128 percent between 1948 and 1957. This rise, however, was due as much to a decline in employment as to an increase in investment. Wholesale and retail trade corporations registered a 54 percent gain, their per-employee investment amounting to more than $10,500 in 1957.

LOCAL ILLINOIS DEVELOPMENTS

In April the major indexes of Illinois business showed diverse movements. Construction contracts jumped 46 percent above March, and seasonally adjusted department store sales in Chicago rose 8 percent. The major decline was in coal production, which dropped 25 percent. Declines of 14 percent and 9 percent, respectively, were experienced in bank debits for selected cities and electric power consumption during the month.

Business Failures in Illinois

According to Dun and Bradstreet reports, Illinois business failures totaled 663 in 1959, an increase of 7 percent over 1958. At the same time, the number of business failures for the nation as a whole declined 6 percent.

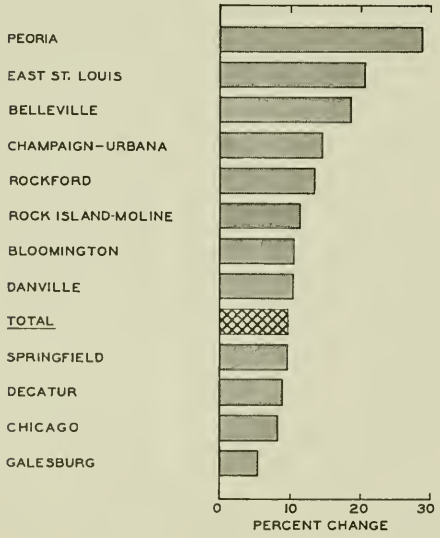
The total dollar liability of the failures in 1959 amounted to almost $40 million, as compared with $35 million in 1958. For the entire nation, total dollar liability decreased from $728 million in 1958 to $693 million in 1959.

For Illinois, present indications point toward further rises in the number of business failures. During the first four months of 1960, there were 257 failures reported compared with 229 in 1959 and 204 in 1958 for the same period. In 1959 business failures in Chicago numbered 303, or nearly 9 percent below 1958, but from January, 1960, through April, 1960, reported business failures were 11 percent above the same period last year and 17 percent above 1958.

Electric Power Consumption

Increased business activity during 1959 resulted in a rise of nearly 7 percent over 1958 in the use of electric power in Illinois. Approximately 41.7 billion kilowatt-hours were consumed in 1959, as compared with 39.0 billion kilowatt-hours in 1958. Fourteen selected cities consumed 14.5 billion kilowatt-hours or 35 percent of the electric power consumed in the entire State.

PERCENTAGE CHANGES IN ELECTRIC POWER CONSUMPTION, 1958 TO 1959



Sources: Local power companies.

All of the fourteen cities showed advances in power use in 1959, with Peoria, East St. Louis, and Belleville having the greatest gains — 29 percent, 21 percent, and 19 percent respectively (see chart). On the other hand, Galesburg and Chicago experienced the smallest increases, with gains of 5 percent and 8 percent respectively.

Electric power consumption in the city of Alton rose from 161 million kilowatt-hours in 1958 to 321 million kilowatt-hours in 1959. This gain, however, was chiefly the result of the annexation by the city of additional area which included three large commercial users that accounted for the consumption of nearly 146 million kilowatt-hours in 1959, or about 91 percent of the increase that occurred in Alton during 1959.

Farm Real Estate Values

In the May, 1960, *Farm Real Estate Market,* farm real estate value for the United States, which includes both land and buildings, was estimated at $129.1 billion on March 1, 1960, or about $111 per acre of farm land. Although farm real estate values rose $4 billion from the year before, the increase was much less than the advances of 6 to 8 percent a year in 1956, 1957, and 1958.

Among the 48 states for which records are available, Illinois was the only one to show no change in farm land values from March, 1959, to March, 1960. Farm land values did increase about 1 percent in the spring of 1959, but they then dropped back to the previous level during the fall and winter months. The decrease was the result of the decline in the number of sales of central Illinois land at extremely high prices. Farm sales serve as the basis of estimates of changes in farm values.

Illinois ranked third in total value of farm land ($8.9 billion) in March, 1960, behind California ($12.3 billion) and Texas ($11.7 billion). Among the principal agricultural states, California continues to lead, with a farm value of $326 per acre. Illinois ranked second with a value of $294 per acre, followed in order by Indiana ($250), Ohio ($246), and Iowa ($245).

The St. Lawrence Seaway

The May, 1960, issue of *Business Conditions* reported that, although the cargo traffic on the St. Lawrence Seaway in 1959 was below earlier predictions, shipments totaled 20.4 million tons, compared with 11.8 million tons in 1958. Over 3,300 ocean and lake vessels used the Seaway, one-third of which could not have passed through the old St. Lawrence Canal.

There is evidence that, owing to lower shipping costs resulting from larger vessels and reduced transshipment, some cargo which was formerly moved by rail to Atlantic ports for shipment overseas was shipped directly from lake ports via the Seaway. The number of freight cars arriving at North Atlantic ports carrying goods for export dropped 17 percent from 1958 to 1959, in contrast to a decline of only 3 percent in arrivals at all major United States ports.

Over 2 million tons of cargo that passed through the Seaway was loaded or unloaded at Chicago. In 1959, water-borne exports from Chicago increased almost 170 percent over the preceding year, and its imports rose 117 percent. In terms of general cargo (as distinct from bulk cargo, e.g., iron ore), Chicago was the most important port on the Great Lakes.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1960

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$38,302[a]	1,211,814[a]	$555,889[a]		$17,834[a]	$18,573[a]
Percentage change from Mar., 1960	+2.5	−6.3	+8.5	+23	−13.5	+7.5
Percentage change from Apr., 1959	+0.4	+0.7	−3.1	+13	+0.7	+7.6
NORTHERN ILLINOIS						
Chicago	$27,637	887,394	$411,142		$16,393	$16,322
Percentage change from Mar., 1960	+1.4	−7.2	+7.8	+21	−14.2	+8.9
Percentage change from Apr., 1959	+8.6	+1.7	−3.4	+12	+0.9	+8.3
Aurora	$1,473	n.a.	$ 9,330		$ 79	$ 171
Percentage change from Mar., 1960	+83.7		+10.4	+37	−4.9	+9.3
Percentage change from Apr., 1959	+105.2		+3.7	+22	+7.5	−1.4
Elgin	$ 387	n.a.	$ 6,029		$ 51	$ 116
Percentage change from Mar., 1960	−24.1		+11.5	n.a.	+2.3	−1.6
Percentage change from Apr., 1959	−17.3		+1.7		+10.4	+4.7
Joliet	$ 561	n.a.	$10,707		$ 89	$ 102
Percentage change from Mar., 1960	−47.8		+12.3	+33	−4.9	−10.4
Percentage change from Apr., 1959	−49.8		+2.7	+16	+4.6	−13.0
Kankakee	$ 80	n.a.	$ 4,572		n.a.	$ 83
Percentage change from Mar., 1960	+17.6		+4.2	n.a.		+4.4
Percentage change from Apr., 1959	−38.0		−7.9			+24.3
Rock Island-Moline	$1,558	27,585	$10,380		$ 115[b]	$ 187
Percentage change from Mar., 1960	+102.3	−3.0	+6.8	n.a.	+1.0	−1.7
Percentage change from Apr., 1959	−2.3	+6.0	−2.7		+3.8	+6.5
Rockford	$1,031	52,245[c]	$18,617		$ 206	$ 274
Percentage change from Mar., 1960	+48.6	−5.3	+12.1	+36[c]	−9.1	+1.7
Percentage change from Apr., 1959	−49.1	+7.9	+5.0	+10[c]	+9.3	+6.7
CENTRAL ILLINOIS						
Bloomington	$ 861	10,867	$ 4,999		$ 72	$ 110
Percentage change from Mar., 1960	+27.2	−0.6	+7.1	n.a.	−1.4	−13.5
Percentage change from Apr., 1959	+72.2	+28.1	−4.4		+1.7	+7.2
Champaign-Urbana	$ 381	14,594	$ 7,637		$ 82	$ 126
Percentage change from Mar., 1960	−29.2	−5.9	+12.0	n.a.	+0.4	+0.7
Percentage change from Apr., 1959	−46.8	+10.7	−4.6		+1.6	+1.4
Danville	$ 508	14,166	$ 6,675		$ 53	$ 75
Percentage change from Mar., 1960	−51.5	−1.0	+30.0	+45	+8.9	+12.2
Percentage change from Apr., 1959	+98.3	+2.8	+12.3	+8	+2.4	+9.4
Decatur	$ 803	36,830	$10,951		$ 123	$ 139
Percentage change from Mar., 1960	+110.2	+1.0	+11.0	+31[c]	+3.1	+17.0
Percentage change from Apr., 1959	+13.6	+3.7	−2.3	+10[c]	+2.6	+15.5
Galesburg	$ 404	9,572	$ 4,123		n.a.	$ 51
Percentage change from Mar., 1960	+78.0	−0.5	+12.1	n.a.		+2.9
Percentage change from Apr., 1959	+270.6	−7.2	−11.6			+20.3
Peoria	$ 559	59,673[c]	$16,769		$ 221	$ 301
Percentage change from Mar., 1960	−59.8	−1.2	+11.2	+24	−6.6	−12.9
Percentage change from Apr., 1959	−43.5	−23.0	−6.3	+9	−10.1	+3.9
Quincy	$ 275	11,504	$ 4,718		$ 48	$ 74
Percentage change from Mar., 1960	+189.5	+2.3	+8.1	+22	−2.2	+2.1
Percentage change from Apr., 1959	−84.6	+0.2	−5.8	+11	−0.8	+8.9
Springfield	$1,149	36,637[c]	$11,781		$ 125	$ 278
Percentage change from Mar., 1960	+20.8	−9.5	+5.6	+46[c]	−7.9	−0.3
Percentage change from Apr., 1959	+26.1	+7.7	−9.1	+28[c]	−7.8	−9.8
SOUTHERN ILLINOIS						
East St. Louis	$ 258	16,597	$ 8,157		$ 134	$ 79
Percentage change from Mar., 1960	+405.9	−2.9	+9.9	n.a.	−12.2	+0.3
Percentage change from Apr., 1959	+46.6	+10.5	−8.7		−12.2	+8.3
Alton	$ 247	22,490	$ 4,906		$ 43	$ 40
Percentage change from Mar., 1960	−69.0	−12.8	+8.5	n.a.	−13.7	−1.8
Percentage change from Apr., 1959	−2.0	−16.1	+0.7		−1.6	+8.9
Belleville	$ 130	11,660	$ 4,396		n.a.	$ 45
Percentage change from Mar., 1960	+36.4	−1.8	+13.7	n.a.		−16.5
Percentage change from Apr., 1959	−45.1	+18.8	−3.1			−5.1

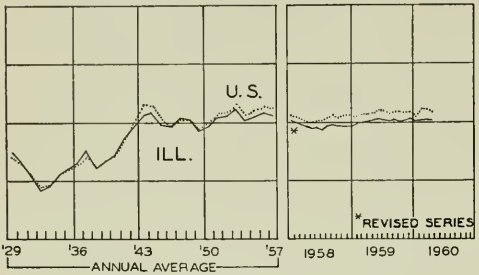
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for March, 1960. Comparisons relate to February, 1960, and March, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending April 29, 1960, and May 1, 1959.

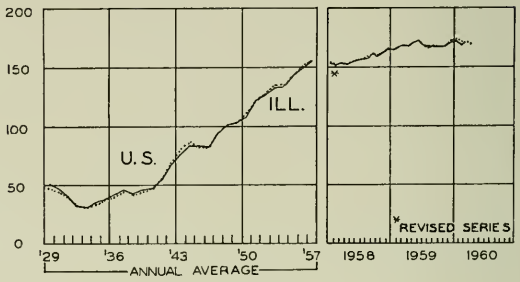
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

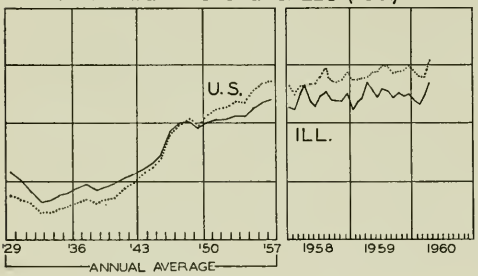
EMPLOYMENT MANUFACTURING



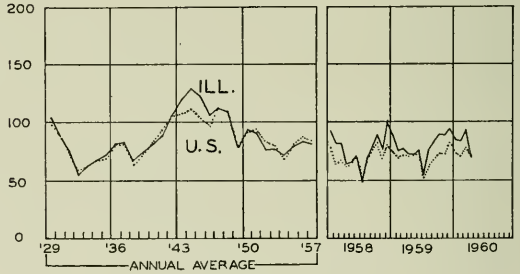
AVERAGE WEEKLY EARNINGS — MANUFACTURING



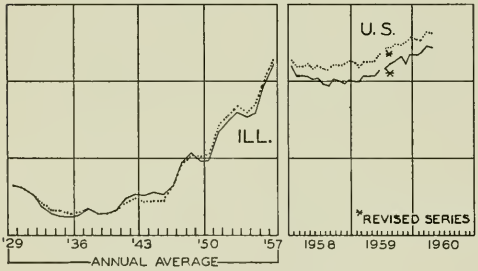
DEPARTMENT STORE SALES (ADJ.)



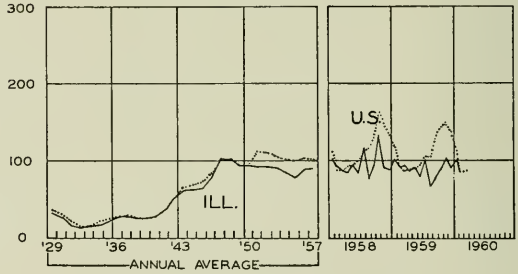
COAL PRODUCTION



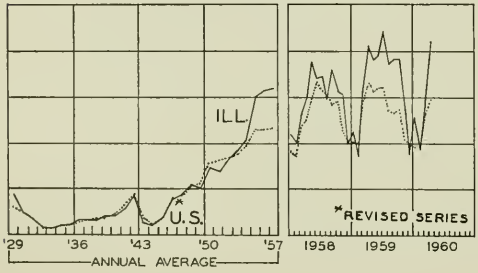
BUSINESS LOANS



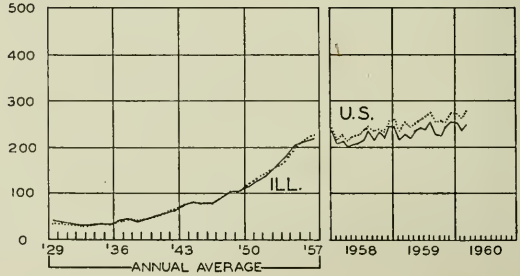
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN JUNE

Business activity moved down in June from the preceding month. Industrial production, which in May rose for the first time since January, fell 1 point in June to 166 percent of the 1947-49 average. The largest factor in this reversal was the continued decline in steel output, where the rate of capacity utilization dropped from 70 percent in May to about 60 percent in June.

Retail sales improved slightly, but were still a seasonally adjusted $200 million below the April peak. The index of department store sales rose to 146 percent of the 1947-49 average, 5 points above May on an adjusted basis. Automobile sales amounted to 594,000 American-made cars, up 4.8 percent from May (but only 1 percent on a daily rate basis).

Construction Gain Below Normal

In June the value of new construction put in place amounted to $4.9 billion, 7 percent above May but 5 percent below June, 1959. The rise was less than is normal for this time of year, so the seasonally adjusted annual rate fell about 1 percent from May to $53.4 billion. Public construction expenditures, which dropped from an annual rate of $15.8 billion in May to $15.4 billion in June, accounted for the major part of this decline.

The seasonally adjusted annual rate of private construction was down $130 million from May to $38.0 billion. Residential building was up slightly, but the June total was 9 percent under the year-earlier month. Other major types of private construction were either unchanged from May or below that month after seasonal adjustment.

In the first half of 1960, outlays for all new construction were down 3 percent from the corresponding period in 1959, the result of a 10 percent decline in public activity.

Discount Rate Down

The Federal Reserve Banks reduced the discount rate on loans to member banks from 4 percent to 3½ percent in the first part of June. Rates on commercial paper — the short-term notes placed by the major sales finance companies directly with investors and those marketed by dealers for other borrowers — were cut three times in June, a total of ⅝ point. Yields on Treasury bills also declined at auction in all but one of the weekly sales in June. These reductions generally reflected an increasing availability of short-term investment funds. However, commercial banks gave little indication that there would be any immediate reduction in interest rates on bank loans to non-bank borrowers. The prime rate at the big New York banks held steady throughout June at 5 percent, where it has been since September, 1959.

Inventories Up, Sales Down

The rate of inventory accumulation increased in May for the first time this year, whereas total sales of manufacturing and trade firms turned down from the April peak. Inventories were valued at a seasonally adjusted $93.3 billion at the end of May, up $700 million from the month before. In April stocks had risen only $300 million in book value. The May increase reflected a $300 million addition to manufacturers' stocks and expansions of $200 million in both wholesale and retail inventories. Retailers' stocks had declined $100 million during April's big retail sales spurt.

May sales of manufacturing and trade firms amounted to a seasonally adjusted $62.1 billion, down $400 million from April. Three-fourths of the drop in sales occurred at the retail level, bringing the total for this group down to $18.6 billion. Sales by manufacturers held steady at $31.0 billion. With new orders received by manufacturers also steady at $30.4 billion, their backlog of unfilled orders declined for the sixth consecutive month, the unadjusted total falling to $47.7 billion. This was $700 million below the preceding month and the lowest since January, 1959. Nearly all the contraction occurred in the iron and steel industry.

Consumer Borrowing Slows

Consumers added only $271 million to their short- and intermediate-term debt in May, after allowance for seasonal influences. This was less than half the increase in April and reflected the May decline in retail sales. Total consumer debt outstanding at the end of May amounted to $52.8 billion, of which $40.7 billion was instalment debt and $12.1 billion noninstalment debt. Expansion of instalment debt fell to $323 million, and this was partially offset by a decrease of $52 million in noninstalment obligations.

Automobile paper made up $132 million of the addition to instalment debt. Other consumer goods paper, personal loans, and repair and modernization loans also increased. The decline in noninstalment debt reflected a $51 million cut in single-payment loans outstanding. An increase in service credit offset a decrease in charge accounts.

THE 1960 AUTOMOBILE MARKET · · · By Robert M. Biggs · · · Page 8

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

Dilemma of Foreign Trade Policy

Our short-term liabilities to foreigners have risen above the gold stock held by this country. At the beginning of the year, the gold stock of $19.5 billion was only $100 million above the total of short-term liabilities. Since then the stock has continued to decline and liabilities have continued to cumulate.

This represents the continuation of a trend that has persisted for more than a decade. With only minor interruptions in the Korean and Suez periods, we have consistently spent more abroad than foreigners spent here. The excess has been used by foreign countries to increase their reserves of gold and liquid dollar assets. Their reserves more than doubled during this period. They increased much faster than the aggregate trade against which such reserves are held, restoring needed international liquidity. This trend was largely a matter of policy. It indicates the success of our efforts to help other nations in reconstruction, development, and expansion.

The loss of the margin of gold stock over liabilities serves as a warning of possible financial embarrassment. The deficits in our balance of payments rose to $3.5 billion in 1958 and $3.8 billion in 1959. In 1958, gold transfers were required for two-thirds of the deficit, but the outflow was cut in half in 1959, when sharp advances in interest rates helped induce foreigners to hold earning assets in preference to taking gold. In the first quarter of 1960, the deficit in our balance of payments was reduced, but only to about a $3 billion adjusted annual rate, indicating at best only partial relief.

A Basic Disequilibrium

Despite all efforts to minimize the problem, there are indications that the underlying source of difficulty is not temporary. It inheres in exchange rates set at levels that give other countries too great a competitive advantage from lower wage rates. When the pound was set at $2.80 it was generally recognized as being priced too low, to eliminate the need for further devaluation. Other countries appear to have even greater advantages. Both Germany and Japan have consistently been able to undersell our manufacturers. In the first quarter of 1960, our imports of finished manufactures forged ahead at an accelerated rate despite a slowdown in purchases of foreign automobiles.

It is commonly contended that "there is little evidence that American products have been priced out of competition." Cited in favor of this are some facts to indicate that prices have not moved against us in recent years. Prices have if anything advanced somewhat faster in other countries. Wage rates also have generally advanced faster but so has productivity, so that there has been no marked widening of the differentials in unit labor costs. Why, then, weren't we priced out of markets long ago instead of just in the last two years?

Actually, the basis for our difficulties did exist earlier as well as now but foreigners were not in a position to take advantage of it. Their needs were so great and their output so limited that they had no alternative to buying from us. But now they have learned the necessary technology and built the facilities for applying it. Our goods were, in effect, marginal all the time, but it took a large upward shift in foreign supply to show just how marginal they are. Recently, production in other industrial countries has soared, advancing about twice as fast as ours since 1957. Their capability shows every sign of keeping pace with needs.

Our own industrialists are unable to meet world competition from plants located in this country. Hardly a week goes by without announcements by American concerns of plans to construct or acquire foreign plants. These are not confined to particular lines but cover a wide range of industries producing both durable and nondurable goods. Part of this, admittedly, is a matter of getting into other markets rather than of lowering costs for sales in our market or in third countries. Moreover, foreigners cannot yet produce everything that we can. But they have gained the needed margins of capital and know-how. So it is only a matter of time until they will find it advantageous to move into unexploited parts of the product spectrum and into other areas we still serve.

Thus, the United States is inadvertently being reduced to the position of an agricultural exporter. Even here, however, our production is marginal — witness the subsidies that have to be used and our misgivings over certain proposals now under consideration by the Common Market countries.

A trade development that makes deficits more persistent is reflected in the fact that our imports have become less sensitive to business fluctuations. Before World War II, an inventory liquidation typically called for sharp reduction of imports, but in the three postwar recessions this has not occurred. In 1958, after a small early decline, imports moved up to a new high by midyear. Rising auto imports were a special factor in that situation, with many of the imported cars coming from American-owned plants. In addition, the recession abroad began earlier than here, and excess output was diverted to this country by pushing exports at favorable prices.

Only when foreign demand increases toward the limits of their ability to produce can we expect good exports. Currently, most industrial countries are in a fantastic boom. But, as the June *Survey of Current Business* points out, "a reasonable equilibrium in our foreign transactions over the long run would require a balance considerably better than that achieved so far."

Ineffectiveness of Proposed Solutions

The idea of moving toward the most direct solution of this problem — namely, by negotiating appropriate adjustment of exchange rates — is abhorent to many people. That would be devaluation, an admission of weak-

(Continued on page 6)

THE COAL INDUSTRY

Coal, more than any other mineral except perhaps iron, was essential in establishing the United States as a world industrial power during the nineteenth century. Fuel is so important to a modern economy that no nation since the early 1800's has become a world power without large deposits of coal.

Although discovered in this country about 1680, coal was not mined on a significant scale until about 1850. By that time its importance as a source of industrial energy was beginning to be realized; before then, it was used locally mainly as a source of heat. Production mushroomed from only 20 million tons in 1860 to more than 678 million tons in 1918.

Since 1920, with the exception of the World War II period, the industry has not been able to live up to its capabilities. A number of factors, such as the increased competition of other fuels, intermittent labor problems, changing consumer preferences, and the rising production costs of mining, have restricted its markets. Despite these industry problems, the United States remains a major producer, today ranking second only to the U.S.S.R.

The Industry Today

Coal for commercial disposition is mined in 22 states. However, more than 80 percent of national tonnage comes from the five major coal states, West Virginia, Pennsylvania, Kentucky, Illinois, and Ohio, listed in the order of volume produced. All these states, except Pennsylvania, produce bituminous coal almost exclusively. Nationally, bituminous coal accounts for nearly 95 percent of total coal production, with anthracite and lignite sharing the remainder.

Although production varies widely from year to year, it has gradually diminished in the postwar period, declining from the record 685 million tons in 1947 to the recent low of 430 million tons in 1958. The industry now has 223,000 workers, compared with some 450,000 in 1947.

Nationally, the coal industry is characterized by a large number of low-volume mines. More than three-fifths of the 8,264 active mines in 1958 each produced fewer than 10,000 tons, and another one-fourth mined between 10,000 and 50,000 tons. The lion's share of production came from the 465 mines with average capacities exceeding 200,000 tons. These mines, of which Illinois has 48, made up only 6 percent of the total number of mines but produced 67 percent of the coal.

Coal reserves in the United States are larger than those of any other nation, amounting to an estimated 2,000 billion tons, or 35 percent of the world total. These reserves are believed ample for at least 1,000 years, but it should be noted that a large part is of lower quality than the present product and is far removed from present consuming centers.

Mining Trends

To offset losses from falling demand and rising costs, the industry has moved steadily toward greater mechanization in mining operations. About 85 percent of the nation's bituminous underground mines today use mechanical loading devices, compared with only 31 percent in 1939. Mechanical cleaning of coal in mines has jumped from 20 percent to 63 percent in the same period, and mechanical crushing of coal now is done at 36 percent of the mines compared with only 7 percent in 1939. As a result of these and other trends in mechanization, daily output per man in underground mines alone went up from 5 net tons to 11 net tons between 1947 and 1958.

Another trend has been the development of strip mining. In 1939 these mines turned out only 10 percent of total coal produced but now account for 28 percent. The motivating factors in strip-mining progress have been the development of larger, more efficient shoveling, drilling, and transportation machinery. Output per man in the nation's 2,000 strip mines averages about twice that of underground mines, and the average value of strip coal is only about one-third lower. In addition, strip mining offers a comparatively higher recovery rate (90 percent) than the 65-75 percent for underground methods.

Illinois — Fourth in Production

Illinois is believed to have more bituminous coal beneath its surface than any other state. There are an estimated 137 billion tons of minable reserves in an area covering about two-thirds of the State. About 3.5 billion tons have been removed up to the present.

Although Illinois has only 2 percent of the mines in the nation, it produces approximately 10 percent of the coal, indicating the relatively high output per mine here. The state's 159 mines, located in 37 counties, produced more than 45 million tons in 1959 with a valuation of $183 million. Underground mines, although outnumbered in recent years by strip mines, still are the larger coal producers in Illinois. In 1959, the 69 underground mines employed nearly 70 percent of the state's 10,900 coal miners and produced 53 percent of the state's coal.

The quality of coal within the State varies. The better grades and larger veins are found chiefly in the southern part of the State. The most productive area, roughly resembling a half-circle, extends southwesterly from Christian County to St. Clair County and then southeasterly through Franklin, Williamson, and Saline counties. From this twenty-county area comes more than three-fourths of the total output.

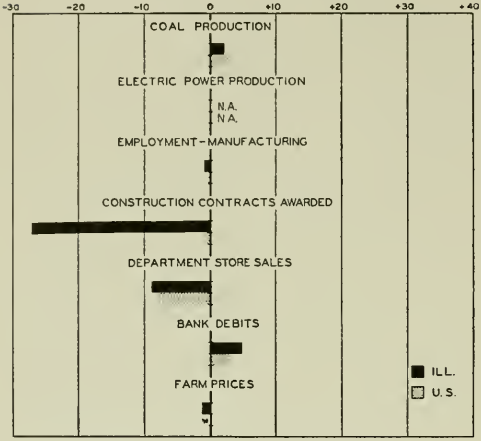
Unlike most Eastern coal states, which ship much of their output to national markets, Illinois mine operators serve primarily consumers within the State. The Chicago area receives about one-fourth of annual shipments. Only one-third of the Illinois coal leaves the State, most of this going only to adjacent states.

Nationally, four of the five major groups of consumers have not increased their demand for coal since 1950; only the electric utility group has expanded its use of coal — about 75 percent. Illinois coal operators sell more than half of their coal to utilities, whereas nationally utilities purchase only two-fifths of total production. This suggests that the outlook for the state's coal industry is somewhat brighter than for many coal states which depend more heavily on declining markets.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes April, 1960, to May, 1960



* No change. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	May 1960 (1947-49 =100)	Percentage change from Apr. 1960	Percentage change from May 1959
Electric power[1]	220.2	− 2.2	− 6.6
Coal production[2]	71.5	+ 2.2	− 1.8
Employment—manufacturing[3]	100.3[a]	− 0.9	− 1.9
Weekly earnings—manufacturing[3]	168.9[a, b]	− 1.5	+ 0.0
Dept. store sales in Chicago[4]	118.0[c]	−11.9	− 7.1
Consumer prices in Chicago[5]	129.6	+ 0.1	+ 1.7
Construction contracts[5]	305.9	−27.2	−19.6
Bank debits[7]	213.9	+ 4.8	+ 8.1
Farm prices[8]	82.0	− 1.2	− 1.2
Life insurance sales (ordinary)[9]	311.0	+ 4.2	− 5.0
Petroleum production[10]	121.2	+ 2.0	+ 4.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Revised series. [b] Data are for April, 1960; comparisons relate to March, 1960, and April, 1959. [c] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	May 1960	Percentage change from Apr. 1960	Percentage change from May 1959
	Annual rate in billion $		
Personal income[1]	399.4[a]	+ 0.4	+ 4 7
Manufacturing[1]			
Sales	372.0[a]	0.0	+ 1.6
Inventories	55.0[a, b]	+ 0.5	+ 6.8
New construction activity[1]			
Private residential	21.1	+ 7.9	−11.0
Private nonresidential	17.1	+ 7.8	+ 8.1
Total public	16.4	+15.9	− 7.2
Foreign trade[1]			
Merchandise exports	21.9[c]	+ 4.1	+23.3
Merchandise imports	15.1[c]	− 8.6	+ 3.0
Excess of exports	6.8[c]	+50.4	118.8
Consumer credit outstanding[2]			
Total credit	52.8[b]	+ 1.3	+15.4
Instalment credit	40.7[b]	+ 1.2	+16.3
Business loans[2]	36.2[b]	+ 0.3	n.a.
Cash farm income[3]	26.4[c]	+ 2.8	+ 0.9
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	110[a, d]	+ 0.9	+ 0.9
Durable manufactures	110[a, d]	+ 0.9	0.0
Nondurable manufactures	114[a, d]	+ 0.9	+ 2.7
Minerals	95[a, d]	− 2.1	− 4.0
Manufacturing employment[4]			
Production workers	101	0.0	− 0.1
Factory worker earnings[4]			
Average hours worked	100	+ 1.0	− 1.7
Average hourly earnings	171	0.0	+ 2.2
Average weekly earnings	171	+ 1.0	+ 0 5
Construction contracts[5]	293	− 0.7	− 5.8
Department store sales[2]	141[a]	− 8.4	− 2.8
Consumer price index[4]	126	+ 0.1	+ 1.9
Wholesale prices[4]			
All commodities	120	− 0.2	− 0.2
Farm products	90	− 0.8	− 0.4
Foods	107	+ 0.5	− 0.4
Other	128	− 0.4	− 0.2
Farm prices[3]			
Received by farmers	89	0 0	− 1.1
Paid by farmers	120	− 0.8	+ 0.8
Parity ratio	80[c]	0.0	− 2.4

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Data are for April, 1960; comparisons relate to March, 1960, and April, 1959. [d] 1957 = 100.
[e] Based on official indexes, 1910-14 = 100. n.a. Not available.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960 June 25	1960 June 18	1960 June 11	1960 June 4	1960 May 28	1959 June 27
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,556	1,483	1,467	1,428	1,407	1,536
Electric power by utilities mil. of kw-hr.	14,213	14,053	13,766	13,134	13,572	13,749
Motor vehicles (Wards) number in thous.	167	163	165	138	173	156
Petroleum (daily avg.) thous. bbl.	6,820	6,840	6,772	6,781	6,815	7,025
Steel 1947-49 =100	101	103	102	100	109	144
Freight carloadings thous. of cars	642	650	648	574	640	698
Department store sales 1947-49 =100	125	148	144	131	139	118
Commodity prices, wholesale:						
All commodities 1947-49 =100	119 5	119.6	119.6	119.7	119.7	119.7[a]
Other than farm products and foods 1947-49 =100	128.3	128.3	128.3	128.4	128.4	128 2[a]
22 commodities 1947-49 =100	85.4	85.4	85.8	86.2	86.3	87.6
Finance:						
Business loans mil. of dol.	31,619	31,526	30,991	31,170	31,172	n.a.
Failures, industrial and commercial number	296	353	283	274	299	256

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for June, 1959. n.a. Not available.

RECENT ECONOMIC CHANGES

Industrial Production

Industrial production in May turned upward for the first time in four months, according to the latest Federal Reserve Board report. The seasonally adjusted May index for industrial output rose to 110 percent of the 1957 average, from 109 percent in both the preceding month and May, 1959. Most of the advance resulted from increases in finished consumer goods and business equipment.

Automobile output jumped sharply in May to 122 percent of the 1957 average, 6 points above the April rate of production and 12 points above a year ago. Appliance manufacturers also increased output schedules during the month, pushing the index for the home goods and apparel category up 2 percentage points to 121. The production index for business and industrial equipment advanced to 105 in May from 103 in the preceding month.

The stepped-up production pace in May occurred despite a deepening decline in the rate of steel output. As indicated in the accompanying chart, the steel industry recovered sharply from last year's strike, with plants operating well over 90 percent of capacity from December through March. By May, however, the average utilization of capacity had fallen to 70 percent. The seasonally adjusted annual rate of steel production fell steadily from a high of 142 million tons in December to 104 million tons in May. Subsequent weekly data indicated that the decline was extended into June with operations falling as low as 43 percent of capacity at the end of the month, the lowest rate since July, 1939.

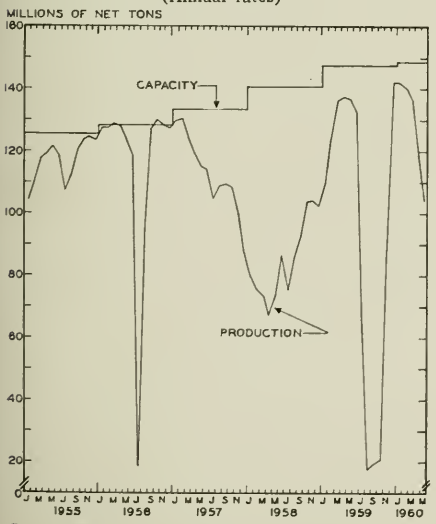
Consumer Attitudes

The latest findings of the University of Michigan's quarterly survey of buying attitudes indicate that consumers have scaled down their buying plans since February. Between the February report and the latest survey, done in May, the report noted a marked decline in consumers' optimism about their own future financial prospects and a growing pessimism about the general business outlook.

In reporting their views about their earnings outlook for the next year only about 35 percent of those interviewed said they expected to earn more, compared with 40 percent in February and 34 percent a year ago. Among families with incomes of $7,500 or more, the proportion expecting to be better off dropped from 50 percent in February to 43 percent in May. Of the 1,400 adults interviewed in May, 60 percent expressed the belief that another recession, similar to that of 1958, is possible.

Buying plans, especially for cars and houses, declined sharply between the two surveys. In February the proportion of families intending to buy new cars during the next twelve months was about 20 percent higher than in the year-earlier month. In May, however, the proportion intending to buy new automobiles was about the same as in May, 1959. Expected purchases of used cars are now much lower than a year ago. Planned purchases of new houses, either newly built or existing homes, were also down sharply from May, 1959, to May, 1960.

STEEL PRODUCTION AND CAPACITY
(Annual rates)



Source: American Iron and Steel Institute.

Working Capital

Corporate net working capital reached a new high of $130.7 billion in the first quarter of 1960. The first-quarter increase was due entirely to a $2 billion advance in total current assets, as current liabilities remained virtually unchanged during the period.

Assets on March 31 totaled $270.2 billion, and liabilities $139.6 billion. The advance in assets resulted from a $3.6 billion increase in inventory holdings between December 31 and March 31, a $900 million rise in notes and accounts receivable, and a $1 billion increase in other assets. These gains more than offset a $3.6 billion reduction in combined holdings of cash and United States government securities. On the liabilities side, increases in trade notes and accounts payable and other liabilities were offset by a $1.4 billion decline in federal income tax liabilities.

Because of the sharp increase in inventory holdings, coupled with the liquidation of trade payables and the seasonal influence of tax payments, corporate liquidity — the ratio of cash and United States government securities to current liabilities — declined during the quarter. On March 31 the liquidity ratio was 41 percent, compared with 44 percent at the close of 1959.

Unemployment

The number of jobless in June rose 964,000, about twice the normal seasonal advance, and raised total unemployment to 4.4 million. As a result, the seasonally adjusted rate of unemployment rose to 5.5 percent of the labor force. At the same time employment rose 1.4 million as large numbers of students entered the labor force.

Labor Department data, in thousands of workers, are as follows:

	June 1960	*May 1960*	*June 1959*
Civilian labor force	73,002	70,667	71,324
Employment	68,579	67,208	67,342
Agricultural	6,856	5,837	7,231
Nonagricultural	61,722	61,371	60,111
Unemployment	4,423	3,459	3,982
Seasonally adjusted rate	5.5	4.9	4.9

Dilemma of Foreign Trade Policy

(Continued from page 2)

ness and a sacrifice of prestige. Washington "can't even talk about any such proposal at the present time." (It may be noted in passing that what is proposed is not devaluation in the sense of a unilateral increase in the price of gold; such a change, if offset by similar devaluation of other currencies, would be pointless.)

To Washington's credit, it has been trying to work out another solution without resort to restrictive trade policies. Restrictions on imports would reverse the free-trade policy we have advocated throughout the postwar period and might invite retaliation. Restricting private lending and investment abroad would involve regimentation and hamper economic development. Reducing the aid program would clearly run counter to existing world needs and would tend to reduce our exports because the countries aided need these funds to finance their imports. On all these fronts, as well as that of controls on international transfers of liquid assets, we have been urging other countries to reduce existing restrictions. Policy properly rejects all these restrictions; the world needs more trade, not less trade.

This perception of needs has led to the establishment of a National Export Expansion Program. This program incorporates a series of intangible measures, such as stimulating business interest in an export drive, providing additional government services to exporters at home and abroad, increasing participation in trade fairs and trade missions, and promoting travel to the United States. All these are, of course, activities used by other countries to promote sales here. They have, in fact, over a decade head-start in this kind of promotion, and recently their efforts have been aided by those of American concerns who have invested abroad. Low-cost foreign producers operating through others who already control channels of distribution here make an unbeatable combination.

Another feature of the program consists of additional efforts to reduce trade barriers. Great gains in this direction have already been made in removal of import restrictions by countries which have emerged from balance of payments difficulties. What seems to be overlooked is that if they have emerged because they have developed an enduring trade advantage, the removal may be meaningless as a long-run solution of our problem.

Whether there is any substitute for a good economic incentive as a basis for promoting export trade remains to be proved. We may hope that this program will be helpful. The best that can be said for it was said by a government official who foresaw the development of present difficulties two years ago: "We have to try these things before we do anything really effective."

The Only Source of Financial Crisis

The more foreign balances pile up, the greater becomes the threat to our financial stability. When funds are withdrawn in volume, as in 1958, the outflow of gold arouses speculative apprehensions that aggravate the outflow. We have become increasingly exposed to creditors' decisions as to where their funds should be held, and it is impossible to specify the developments or disturbances that might result in a desire to shift funds out of the United States. The probability of attacks on our gold stock increase with the growth of foreign holdings.

The difficulty with doing anything effective arises from the fact that any whisper of such action will bring on the very scramble from dollars that is now just a possibility. Converting to gold or foreign currencies would enable the holder to convert back and make a profit simply by waiting until action is taken. This immobilizes us, so that we let our liabilities pile up to an excess that is ever harder to handle. From this grows the other horn of the dilemma: there is no assurance that an ultimate breaking point can be averted unless the basic disequilibrium is corrected.

The fear of withdrawals not only immobilizes us, it leads to action that is undesirable on other grounds. We keep interest rates high in order to attract foreign funds into short-term assets here. This policy has had some success, but with their balances growing and interest rates rising abroad, it will take ever higher rates to maintain the attraction of dollars. Furthermore, there is the danger that high rates will choke off domestic capital formation and help to bring on a more serious decline in business. In this respect, of course, they are on a par with tight money and our other restrictive policies. But we are entering a situation where monetary ease should give what assistance it can to business, and to the extent that foreign balances interfere with this policy shift, the country will suffer an unjustifiable depressant.

As long as business continues high it is possible to maintain that we can afford to take the rap and to insist that business and labor should compete more vigorously for available markets. If this means idle resources in some industries, resources should shift. However, American business and labor in the affected industries are unwilling to accept idleness as a solution. This brings continual pressure under the escape clause and peril point provisions of existing agreements and legislation. The free traders have been fighting a series of hold-the-line actions, giving way only slowly and only on those particular items where the pressure cannot be resisted. This policy of piecemeal concessions protects and preserves inefficiencies and promotes misuse of resources in the lines of production where our comparative weakness is greatest.

The arguments against change are impressive, but standing pat on our present policies can only lead to a more critical situation. The nature of the dilemma is such that all the alternatives are disadvantageous. So it is important to know where the most serious trouble lies. The exchange rate affects both the terms on which trade is conducted and the value of liquid balances. We do not wish to affect the latter adversely or to open the dollar to speculative cross currents. But much more urgently, we do not wish to stagnate and slide into deflation by preserving an untenable balance of payments position. No one can seriously maintain that depression here would solve any problems for other parts of the world with which we trade, whether industrialized or underdeveloped.

We offer other countries the best by keeping levels of activity in this country high. They could help us by using their current dollar earnings for purchases from us. If trading and financial conditions do not warrant this, there is no reason why we should cling to all our gold. Nevertheless, given existing attitudes toward gold and the banking system, the possibility of financial crisis exists in massive withdrawals of foreign balances at a time when business is declining. We should think ahead to the time when action will have to be taken to correct our trade position. In all probability a moderate adjustment of exchange rates would be acceptable if coupled with serious measures to prevent a recession from deepening.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Experiences With Office Automation

In order to ascertain the impact upon employment of the installation of electronic computer systems in business offices, the Bureau of Labor Statistics recently undertook a study of twenty corporation business offices which had installed such equipment. These corporations ranged in size from 700 employees to about 14,000 employees.

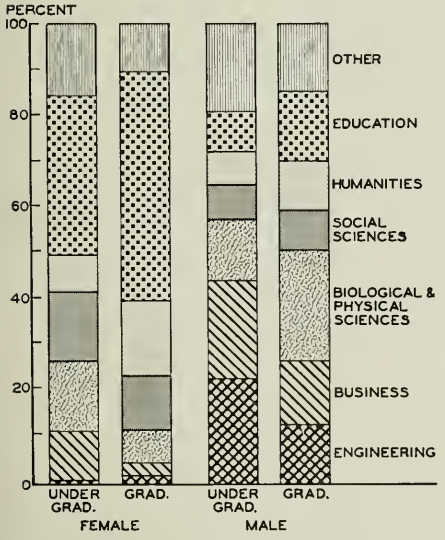
More than 50 percent of the 2,800 employees in units of the offices where work was placed on the computers experienced no change in position, about 31 percent were shifted to other positions in the business, 12 percent quit, and less than 1 percent were dismissed during the first year after installation. The fact that only a relatively small proportion of the employees left their jobs was the result of about three years of preparation and planning by the corporations and involved a sequence of administrative, technical, and personnel changes. A year after the installation of the electronic equipment, nearly one-third of the employees in the affected group had been promoted to a higher grade, and only a negligible number had been downgraded. The study revealed that older employees were subjected to change in job status to a lesser extent than younger workers, owing to general policies of job security and seniority.

The Rush to the Suburbs

Growth and redistribution characterized the population of the United States between April, 1950, and April, 1960, with preliminary census figures for the 50 states totaling 177,733,200 persons in April, 1960. This represents an increase of 17.5 percent in the nation's population but breakdowns show an even greater growth in the metropolitan-suburban areas.

Of the 189 standard metropolitan areas throughout the nation, all but 9 gained in population. The total population in these 189 metropolitan areas amounted to 108,872,700, or 61 percent of the national total. However, the major gains occurred in suburban areas. The population in metropolitan areas outside the central cities grew by over 17 million people, or 47 percent, accounting for nearly two-thirds of the over-all national population increase of 26.4 million persons during the decade. This is in contrast with a gain of only 8 percent in the central cities. Four of the five United States cities with a million inhabitants or more lost population — New York, Chicago, Philadelphia, and Detroit. However, Los Angeles registered an increase of 24 percent and several smaller cities made bigger gains, notably Phoenix with a growth of 303 percent.

MAJOR SUBJECTS OF COLLEGE STUDENTS
FALL, 1959



Source: National Industrial Conference Board, *Road Maps of Industry*, May 27, 1960.

Texas Leads in Livestock

According to the May, 1960, issue of the *Agricultural Situation*, Texas, with 9.5 million cattle, or 9 percent of the national total, leads the nation in number of beef cattle, followed by Iowa, Nebraska, Kansas, and Missouri in that order. Texas was also the leading sheep-raising state, accounting for 18 percent of the nation's sheep and lamb population. At the start of this year, 43 percent of the nation's sheep and lambs were located in the eleven Western States.

As would be expected, the North Central region is the largest hog-producing area in the nation. This region accounts for about 75 percent of the pigs raised in the country. Iowa is the leading state in the ranking, and Georgia is the only state outside the North Central region among the top ten.

Wisconsin, Minnesota, and New York have the largest number of milk cows in the nation. Since 1950, there has been a notable shifting in the rank of the leading milk-cow states. Pennsylvania has climbed from eighth to fourth and California from eleventh to sixth; Texas has dropped from fifth to eleventh.

How Many for College?

According to a Bureau of the Census survey conducted in October, 1959, nearly 50 percent of all high school seniors in the nation planned to enter college in 1960. Slightly over 2 million high school seniors were covered by the study. Of the one million male students surveyed, 49 percent planned to attend college, 22 percent were still undecided, and 29 percent had no plans to attend college. It was found that 45 percent of the high school coeds had college plans, whereas 18 percent were still undecided and 37 percent had no plans to attend college.

Among students enrolled in college for the fall term of 1959, 23 percent of the male undergraduates were majoring in engineering, 21 percent in business, and 13 percent in biological and physical sciences (see chart). Of all male graduate students, majors in biological and physical sciences accounted for 24 percent. Education, business, and engineering had approximately one-seventh each. The survey showed that education is the most popular course of study for female students, with 35 percent of the women undergraduates and nearly 50 percent of those in graduate schools specializing in this field.

THE 1960 AUTOMOBILE MARKET

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An appraisal of the 1960 automobile market at this juncture reveals exciting possibilities. Early in the year, the prospects for automobile sales seemed to be surrounded by uncertainties. They included the effects of the steel strike and its settlement, consumer credit developments, growth in the stock of used cars and, most of all, public acceptance of the domestically produced compact cars. It is now possible to evaluate, at least tentatively, the repercussions of these developments upon automobile sales.

Moderate Strength Shown by the Market

The present state of the automobile market, however, raises its own uncertainties. Much attention has been drawn to the large number of automobiles sold thus far this year. January through May physical sales have been running at an adjusted annual rate of about 6.7 million cars. These sales considerably exceed the normally good markets of 6 million units in 1956, 1957, and 1959 and approach the record of 7.2 million in 1955. Unit sales suggest that the 1960 auto market is unusually strong.

Dollar expenditures for automobiles present a more reserved picture. According to these figures, the 1960 auto market is just normally strong. People are buying an unusually large number of automobiles but are paying a substantially reduced average price for them. Large sales of compact cars appear to have decreased the average expenditure per automobile by something over $250. This decline substantially exceeds any one-year change in this average price that has occurred since 1952, including a number associated with new wage agreements for automobile workers. It explains why the American public is now buying substantially more automobiles than in 1959 while its expenditures for automobiles are substantially equal to those in 1959.

From an expenditure point of view, the present automobile market closely approximates five of the seven preceding markets. The 4.7 percent of disposable income spent for automobiles during the first quarter this year equals the percentage for 1959 and 1956, is slightly below the 4.9 percent for 1957 and the 4.8 percent for 1953, and is slightly above the 4.5 percent for 1954. The 1960 percentage stands almost midway between but differs considerably from the recent low of 3.8 percent in 1958 and the high of 5.9 percent in 1955. It may well be taken as a norm for the sixties.

The unadjusted unit sales data regularly published exaggerate the strength of any automobile market when spring figures are considered. Automobile sales typically range from 8 to 13 percent above average during the months of April through July and moderately above average even during March and August. With December irregular, these above-average sales are balanced by below-average sales during the fall and winter months. Even allowing for this pattern, however, the automobile market has been strong thus far this year. In part this strength may be a rebound from 1959 results that had been depressed by the long steel strike. Other developments that may have contributed to this strength should also be examined.

Some Special Factors Affecting Sales

One of these is the comparatively slow rate of additions to the stock of cars in use. According to scrappage estimates by the Automobile Manufacturers Association and independent projections of these estimates, the number of automobiles scrapped is now well in excess of 4 million a year. Large numbers of postwar cars are now moving into the age brackets that are always subject to fairly heavy scrappage. Consequently, when new car sales are only 4.7 million as they were in 1958, these sales add little to the total stock of used cars but serve mostly to replace the cars scrapped. Even last year's more normal sales of 6 million automobiles added less than 2 million to our 55 million stock of automobiles. Such heavy scrappage promotes new car sales while retarding growth in the stock of automobiles.

At the same time, the number of potential drivers has continued to increase as children born during the 1940's reach driving age. Thus, the number of automobiles per worker in the labor force has been increasing during the past five years at only about two-thirds the rate prevailing during the previous five years. With less than eight-tenths of an automobile per worker in 1959, it will take about another decade, at present rates of growth, for this ratio to increase to one automobile per worker.

Automobile credit developments also help to explain the vigor of this market. The ratio of automobile indebtedness to disposable income increased fairly rapidly during the three years following the termination of Korean credit controls but has remained quite stable during the period beginning with 1956. The ratio of automobile-credit repayments to disposable income tells about the same story. During last year and the first quarter of this year, these repayments have absorbed only 4.9 percent of disposable income — no more than they did in 1955 and a bit less than they did in the intervening years. Obviously, the extravagances of some individuals completely misrepresent the generally sound behavior of the public as a whole in its use of instalment credit for the purchase of automobiles.

The current stimulus to the automobile market has resulted from an easing of credit terms during 1959 and the first four months of 1960. A substantial rise in the ratio of automobile credit outstanding to repayments indicates that the average duration of automobile loans has increased by more than a month and a half. The rate of increase in this ratio, especially recently, is at least equal to that following the termination of credit controls during 1953, 1954, and 1955. One infers that concessions in terms of down payments are also being made. Such easing of credit terms permits people temporarily to buy automobiles by means of increasing their indebtedness with no intensified pressures on income. It is stimulating only as long as credit terms become progressively easier.

Last fall a good deal of speculation was directed to the effects of the steel strike and its settlement upon the automobile market and the economy generally. In some quarters, much was made of it as a cause of good times ahead. Developments do not seem to have fully lived up to the more extreme expectations.

Little in the picture of automobile expenditures warrants the conclusion that the steel strike and its settlement have exercised a strong direct influence upon automobile sales. Except possibly for a small deficiency during the third quarter last year, variations in automobile expenditures through most of the year seemed consistent with general fluctuations in total income. There was a

distinct deficiency also in late November and December reflecting shortages of steel for automobile production.

The steel strike's influence upon income was twofold. The most obvious one was the curtailment of incomes to the strikers and to those dependent upon steel production and the spending of the resulting incomes for employment. The other was the effects of the strike upon steel inventories of all kinds. These inventories were built up in anticipation of the strike, depleted during the strike, and built up again to normal levels after a settlement was reached. But these variations probably had only moderate effects upon total income.

Automobile sales certainly responded to these and other effects upon income. They usually display sensitive responses to income changes. But the exact magnitude and duration of the steel strike's influence upon income and automobile sales is difficult to measure accurately. Even combined with the year-end deficiency that was due to steel shortages, these influences probably did not affect unit sales as much as 5 percent. A shift of this magnitude from 1959 to 1960 would account for most of the rise experienced and, as already indicated, the new low-priced models were also a factor in this rise.

Market Effects of the Compact Cars

Undoubtedly the most exciting uncertainty surrounding the 1960 automobile market was the introduction of the new domestic compact cars. How have they been received by the public and what bearing has this reception had upon automobile imports and sales of conventional automobiles as well as the total automobile market? Sales comparisons for April, 1960, with April, 1959, published by *Ward's Automotive Reports* provide a basis for some tentative conclusions about these matters.

The success of our domestically produced compact cars cannot be doubted. Compacts, including imports, have been running at about 28 percent of all cars sold thus far this year, and over two-thirds of the compacts were home products. Accordingly, the domestic compacts have already been considerably more successful than the imported products. They have not reduced our imports but have terminated the previous steady rise in these imports. It seems quite possible that the imports satisfy consumer preferences that domestic manufacturers may never want to serve.

The success of the domestic compacts is not an unmixed blessing. It seems to have been far more a matter of better serving consumer preferences than of enlarging the total market for automobiles. Although the number of automobiles purchased has grown, total expenditures for them seem to be about what they would have been in the absence of the new small cars.

Even more surprising, the compacts do not seem to have altered the apportionment of sales between standard-priced makes (Ford, Falcon, Chevrolet, Corvair, and so on) and higher-priced automobiles. Since 1953 (with the exception of 1955) standard-priced automobiles have ranged very close to 62 percent of total sales. During the first four months this year the percentage was 62.4, actually 0.2 under the percentage for 1959.

Each new compact has tended to compete most with its manufacturer's opposite number in a standard car. Manufacturers have experienced far more change in the market penetration of their individual models than in their total market penetration. For the most part, losses in sales of standard cars have been offset by increased sales of compacts.

These statements must be qualified. As would be expected, the offsets are by no means perfect. In the case of both Ford and Plymouth, sales of compacts failed to offset fully the lost market shares of standard cars. On the other hand, for Chevrolet, where customers showed marked preference for the standard car, a net gain was realized. Dodge also gained strongly in sales of the Dart, but this is a standard-sized car rather than a compact.

Manufacturers' total market penetrations have also altered, but much more moderately. Comparing the first third of this year with 1959, American Motors, Chrysler, and General Motors have increased their shares of the market — Chrysler rather notably — whereas Ford and Studebaker-Packard experienced moderate declines. In terms of each firm's market-penetration experience during the fifties, American Motors with 6.2 percent of total sales is at its highest point and Ford with 25.8 percent is at an intermediate position. Imports have also gained. The other three domestic manufacturers are now at moderately lower ranges as compared with their percentages during the last decade: General Motors at 43.5, Chrysler at 14.2, and Studebaker-Packard at 1.8 percent.

Autos and the Economy as a Whole

These observations do not weaken the main conclusion, that neither total automobile sales nor individual manufacturers' sales have been affected nearly as much by the compacts as have the sales of manufacturers' particular models. The suspicion grows, moreover, that the compact car's success is the beginning of a basic merchandising change rather than the movement to a different type of automobile. It seems possible that automobile merchandising will move in the direction taken by many other consumer goods. The trends may be described in terms of increasing emphasis upon a car for long ownership rather than one for a distinct class of new-car buyers, upon attractive designs that will better stand the test of time, and upon a more uniform product for the big majority of customers that engenders pride of ownership with fewer uncertain comparisons with alternative models and equipment. If this is the case, the fact must, of course, be carefully established by a continuing, painstaking appraisal of future experience.

Experience to date reinforces an opinion long held by many observers, that the total market for automobiles is surprisingly independent of particulars that strongly affect parts of the market. The total market often does not seem to be materially influenced, for instance, by fairly drastic changes in product design, promotion, or the success of individual firms or models. This does not mean that such details are insignificant. They are clearly important to many people. But it does suggest that the total market may be influenced by substantially different forces from those that determine particular penetrations of the market. It provides support for those who find the chief explanations for the total market in total economic developments. It seems clear, moreover, that an individual firm is at least as drastically affected by these total economic developments as it is by forces that affect its share of the market.

Developments in total income, in the present writer's view, may still prove critical for the 1960 automobile market. It should be stressed that the present review has been concerned with less than half of the year in question. The months ahead may very well alter the picture substantially. It seems probable that combined prospects for investment in producers' durable equipment and inventory movements offer the most important key to an appraisal of the months ahead.

LOCAL ILLINOIS DEVELOPMENTS

In May, indexes of Illinois business activity remained about the same as in the previous month, with a few notable exceptions. The largest declines were in construction contracts and seasonally adjusted department store sales in Chicago, which fell 27 percent and 12 percent respectively. Bank debits rose 5 percent, the largest increase, and life insurance sales advanced 4 percent.

Life Insurance in Force

Illinois ranked fourth in the United States in life insurance ownership in 1959, according to the Institute of Life Insurance. The state's families owned nearly $37 billion of life insurance, represented by over 17 million certificates and policies. This record amount was an increase of 108 percent from 1950 and a gain of 8 percent from 1958. However, the state's total was only 6.7 percent of the national total in 1959 compared with 7.5 percent in 1950.

Shifts in types of policies owned by Illinois families continued to occur during the 1950's. Of the four categories of life insurance, ordinary accounted for 60 percent of the total coverage in 1959, compared with 65 percent in 1950. The proportion of industrial insurance dropped from 12 percent in 1950 to 7 percent in 1959. On the other hand, group insurance rose to 30 percent of total coverage compared with 23 percent in 1950. Credit insurance, though nonexistent in Illinois in 1950, accounted for 3 percent of the total coverage in 1959.

Marina City Planned for Chicago

Officers of the Building Service Employees International Union announced recently that the union plans to start construction of its $36 million multiple-use project called Marina City on the north bank of the Chicago River at State Street. Marina City will include housing for middle-income families, a large commercial building, and recreational facilities.

The apartments will be situated in two 60-story circular towers, each containing 40 residential floors surrounded by curved balconies. The first eighteen stories of the two towers will be devoted to parking ramps. The two towers will contain a total of 900 apartments and parking area for 900 cars. The apartments will consist of efficiency units and units with one or two bedrooms.

The project's commercial building will be a ten-story structure with about 173,000 square feet of space. The recreational and service facilities will include a restaurant, motion picture theater, skating rink, swimming pool, bowling alley, shops, and a marina with storage facilities for 700 small craft.

Population Growth

According to preliminary figures released recently by the Bureau of the Census, the population of the State increased from 8,712,200 persons in April, 1950, to 9,981,600 in April, 1960, an advance of approximately 15 percent.

This population growth occurred mostly in those counties located in the northern and central parts of the State (see chart). Cook County and eleven neighboring counties accounted for about two-thirds of the state's population growth. DuPage County nearly doubled in population during the decade, while the counties of McHenry, Will, and Kane advanced 64 percent, 42 percent, and 38 percent respectively. On the other hand, the preliminary figures indicate that 51 counties lost population.

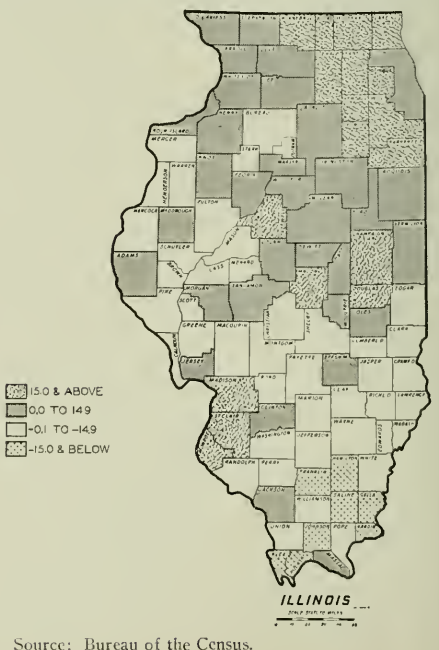
The census report indicates that among the three Illinois cities with populations greater than 100,000 persons, two have fewer inhabitants than they had in 1950 — Chicago (—3.5 percent) and Peoria (—8.1 percent). Rockford has become the second largest city in the State, with a population of nearly 126,000, up 35.5 percent.

Real Earnings of Production Workers

The June, 1960, issue of the *Illinois Labor Bulletin* reports that in April, 1960, Illinois manufacturing production workers had about 20 percent more purchasing power, after deductions are made for federal income tax and old age and survivors insurance contributions, than they averaged during the three-year period from 1947 through 1949. In April, 1960, production workers' spendable earnings averaged $66.15 a week for those with three dependents and $60.24 a week for those with no dependents, in terms of 1947–49 dollars.

During the past year, however, spendable earnings of production workers have declined, even though average weekly gross earnings were slightly higher in April, 1960, than they were a year earlier. This was the result of the increase in the old age and survivors insurance tax rate from 2.5 percent to 3.0 percent on the first $4,800 of gross earnings, which took effect January 1, 1960. In terms of 1947–49 dollars, workers with three dependents had average weekly spendable earnings of $66.15 in April, 1960, compared with $67.59 in April, 1959; and weekly spendable earnings of workers with no dependents fell from $61.58 in April, 1959, to $60.24 in April, 1960.

PERCENTAGE CHANGES IN ILLINOIS POPULATION, APRIL, 1950, TO APRIL, 1960



Source: Bureau of the Census.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1960

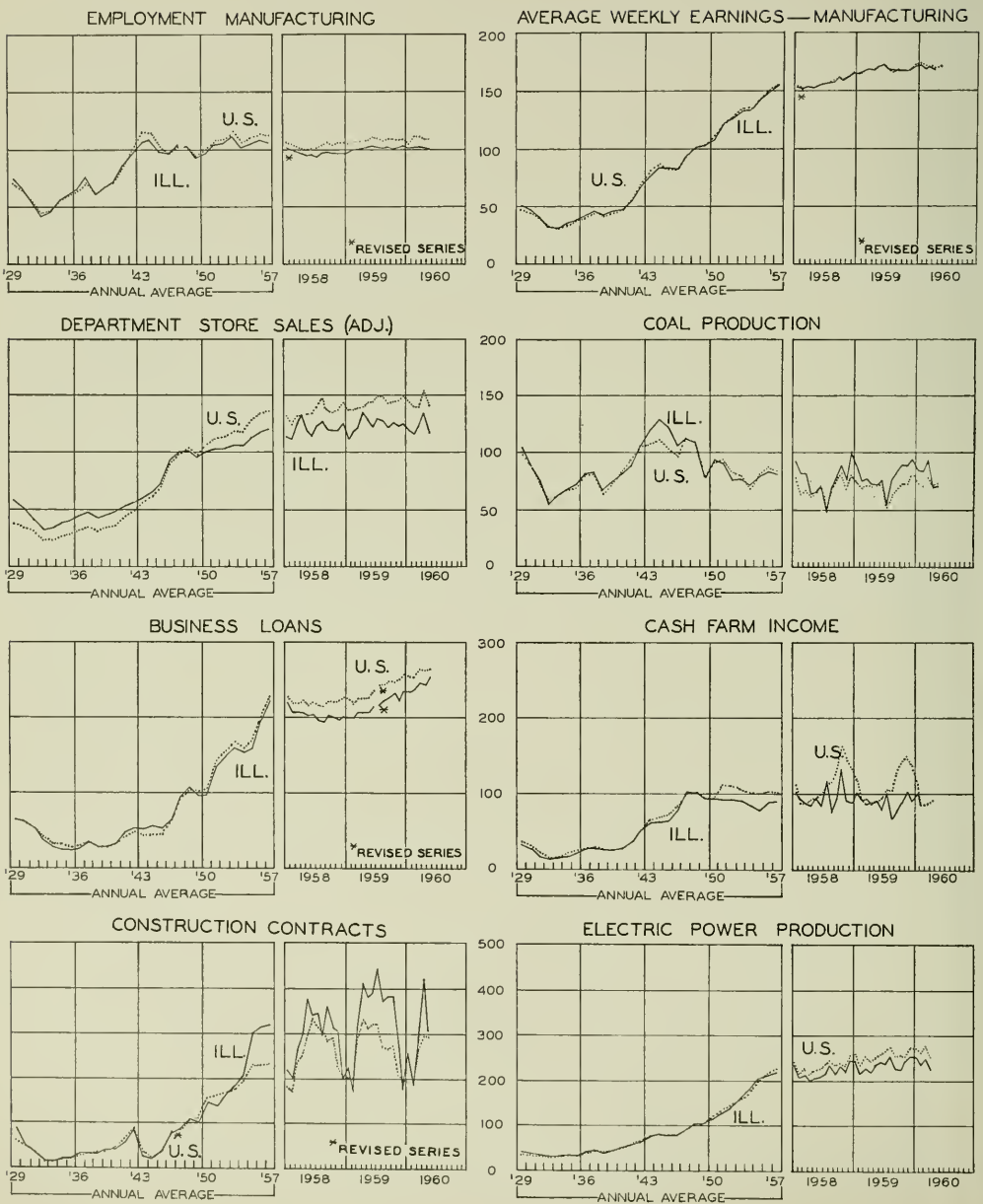
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$86,967[a]	1,149,551[a]	$570,490[a]		$18,695[a]	$16,545[a]
Percentage change from Apr., 1960	+127.1	−5.1	+2.6	−9	+4.8	−10.9
Percentage change from May, 1959	+124.2	−2.6	+0.4	−7	+8.1	+12.2
NORTHERN ILLINOIS						
Chicago	$77,284	840,122	$409,378		$17,220	$14,311
Percentage change from Apr., 1960	+179.6	−5.3	−0.4	−7	+5.0	−12.3
Percentage change from May, 1959	+166.8	−3.0	−1.0	−7	+8.7	+13.0
Aurora	$ 487	n.a.	$ 9,519		$ 83	$ 177
Percentage change from Apr., 1960	−66.9		+2.0	−19	+4.8	+3.6
Percentage change from May, 1959	−39.8		+3.8	−12	+10.1	+16.2
Elgin	$ 802	n.a.	$ 6,451		$ 126	$ 126
Percentage change from Apr., 1960	+107.2		+7.0	n.a.	−1.8	+8.0
Percentage change from May, 1959	+81.4		+6.1		+5.0	+8.3
Joliet	$ 390	n.a.	$11,759		$ 89	$ 107
Percentage change from Apr., 1960	−30.5		+9.8	−11	+0.3	+5.0
Percentage change from May, 1959	−65.8		−13.4	−9	+2.3	+17.1
Kankakee	$ 396	n.a.	$ 5,403		n.a.	$ 62
Percentage change from Apr., 1960	+395.0		+18.2	n.a.		−24.6
Percentage change from May, 1959	+59.7		+9.9			+25.5
Rock Island-Moline	$1,194	25,936	$11,676		$ 120[b]	$ 179
Percentage change from Apr., 1960	−23.4	−6.0	+12.5	n.a.	+4.4	−4.6
Percentage change from May, 1959	+9.4	−2.0	−2.0		+2.8	+11.5
Rockford	$ 151	49,610[c]	$19,519		$ 199	$ 250
Percentage change from Apr., 1960	−85.4	−5.0	+4.8	−13[c]	−3.5	−8.9
Percentage change from May, 1959	−87.7	+1.5	+4.4	−8[c]	+3.6	+5.9
CENTRAL ILLINOIS						
Bloomington	$ 619	10,738	$ 5,702		$ 72	$ 117
Percentage change from Apr., 1960	−28.1	−1.2	+14.1	n.a.	+0.6	+6.5
Percentage change from May, 1959	+30.9	+28.9	+7.5		−5.1	+12.1
Champaign-Urbana	$ 333	14,046	$ 8,436		$ 85	$ 129
Percentage change from Apr., 1960	−12.6	−3.8	+10.5	n.a.	+4.0	+2.9
Percentage change from May, 1959	−25.0	+4.2	+2.8		+15.0	+7.7
Danville	$2,917	13,476	$ 6,462		$ 52	$ 69
Percentage change from Apr., 1960	+474.2	−4.9	−3.2	−19	−2.0	−8.2
Percentage change from May, 1959	+892.2	−1.3	+4.1	−14	+5.2	−1.2
Decatur	$ 938	33,635	$11,635		$ 122	$ 138
Percentage change from Apr., 1960	+16.8	−8.7	+6.2	−13[c]	−1.5	−0.8
Percentage change from May, 1959	+26.9	−4.2	+2.7	−15[c]	+2.3	+8.8
Galesburg	$ 143	9,023	$ 4,784		n.a.	$ 49
Percentage change from Apr., 1960	−64.6	−5.7	+16.0	n.a.		−5.3
Percentage change from May, 1959	−25.5	+3.0	+3.4			+7.6
Peoria	$ 161	59,106[c]	$18,036		$ 227	$ 297
Percentage change from Apr., 1960	−71.2	−1.0	+7.6	−11	+2.7	−1.4
Percentage change from May, 1959	−13.0	+3.8	−0.4	−11	−4.8	+7.7
Quincy	$ 627	10,101	$ 5,190		$ 53	$ 79
Percentage change from Apr., 1960	+128.0	−12.2	+10.0	−17	+11.0	+6.9
Percentage change from May, 1959	−27.1	−17.5	+1.7	−8	+1.7	+7.3
Springfield	$1,145	35,245[c]	$17,748		$ 132	$ 286
Percentage change from Apr., 1960	−0.3	−3.8	+50.6	−20[c]	+5.4	+2.9
Percentage change from May, 1959	−6.5	−7.0	+34.0	−8[c]	−4.7	−5.7
SOUTHERN ILLINOIS						
East St. Louis	$ 84	15,987	$ 8,852		$ 145	$ 78
Percentage change from Apr., 1960	−67.4	−3.7	+8.5	n.a.	+7.9	−1.9
Percentage change from May, 1959	−50.3	+7.5	+3.1		−3.0	+5.8
Alton	$ 285	21,694	$ 5,154		$ 47	$ 40
Percentage change from Apr., 1960	+15.4	−3.5	+5.1	n.a.	+8.7	−1.2
Percentage change from May, 1959	+171.4	−20.1	+4.3		+0.6	+12.6
Belleville	$ 156	10,832	$ 4,786		n.a.	$ 52
Percentage change from Apr., 1960	+20.0	−7.1	+8.9	n.a		+17.6
Percentage change from May, 1959	−11.4	+12.6	+11.8			+21.3

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for April, 1960. Comparisons relate to March, 1960, and April, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending May 27, 1960, and May 29, 1959.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN AUGUST

Business activity in August held at about the same level as in the two preceding months. The index of industrial production was at 109 (1957 = 100), 1 point below July and even with June. The number of unemployed dropped, but the number of employed workers fell still more. The seasonally adjusted unemployment rate rose from 5.5 percent to 5.9 percent. Department store sales were down 4 points to 145 percent of the 1947-49 average after seasonal adjustment. Automobile sales amounted to 479,000, for a daily average rate 3 percent above July but 5 percent below last August. Detroit was not happy about either the August rate of sales or the inventory of nearly 900,000 1960 model cars on hand as production of 1961 cars began.

Construction Lags

Although the dollar value of new construction put in place rose slightly in August to $5.2 billion, the increase was less than normal for the month. The seasonally adjusted annual rate was off 1 percent from July and 5 percent from the August, 1959, level. Private construction valued at $3.5 billion was down 1 percent from July and 8 percent from August last year. Spending for construction of private residential buildings in the latest month amounted to $2.0 billion, slightly below July and 16 percent below the year-earlier month. Most other major types of private construction showed small gains over July and increases of at least 5 percent over August, 1959, with industrial building amounting to 28 percent more than in August last year.

Public spending on new construction totaled $1.6 billion in August, 1960. Although this was slightly more than July expenditures, the seasonally adjusted annual rates for the two months show a decline. However, the latest month was 1 percent above August, 1959.

Capital Investments Down

For the second time the SEC-Commerce Department estimate of business capital expenditures in 1960 has been revised downward. It is now expected that the total for the year will amount to $36.4 billion, 12 percent above 1959. In June the 1960 total was estimated at $36.9 billion, with a $37.0 billion second-quarter rate. At that time the third-quarter rate was expected to go to $37.5 billion. The latest report places the second-quarter rate at $36.3 billion and that for the third quarter at $36.9 billion. The latter rate is also projected for the fourth quarter of this year.

The present estimate anticipates that manufacturers will spend nearly $14.6 billion on plant and equipment in 1960, 21 percent more than in 1959. Expenditures by railroads and public utilities are expected to be 16 percent and 4 percent, respectively, above 1959.

July Sales, Inventories Off

Sales by manufacturing and trade firms fell $800 million in July to a seasonally adjusted $61.0 billion, the lowest total in seven months and $1.5 billion below the April peak. The decrease from June was almost equally divided among manufacturers, wholesalers, and retailers. Among retailers the decline mainly reflected lower auto sales, but two-thirds of the drop at the wholesale level and half at the manufacturing level were attributed to lower shipments of nondurables.

Inventories showed their first net decline this year, falling $100 million to $93.3 billion. Manufacturers reduced the book value of their stocks by $200 million, their first net liquidation since the end of the steel strike last year. Wholesale inventories remained unchanged at $13.0 billion, while retailers increased theirs $100 million to $25.4 billion, with all the gain occurring in durables.

New orders received by manufacturers during July were off 2 percent from June to a seasonally adjusted rate of $29.4 billion. Most of the drop occurred in the nondurable goods industries.

Consumer Debt Still Expanding

The short- and intermediate-term debt of consumers continued to rise during June and July as it had during the preceding months. On a seasonally adjusted basis total consumer debt increased $370 million in June and $332 million in July. These additions were smaller than the average for the first five months. They brought the total outstanding at the end of July to $53.7 billion. Of this, $41.7 billion was instalment debt, and $12.0 billion was noninstalment debt. The former rose an adjusted $342 million in June and $249 million in July.

Automobile paper accounted for about a third of the adjusted increase in instalment debt in June but contributed very little to the July expansion. Other consumer goods paper and repair and modernization loans also showed smaller increases in July as compared with June. However, personal instalment loans, which make up only a fourth of all instalment debt outstanding, accounted for three-fifths of the adjusted increase in the latter during July.

RURAL MIDWESTERN VOTING TRENDS · · By C. B. Hagan and C. D. McMurray · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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Can Growth Be Maintained?

The rate of economic growth has become an issue in the election campaign.

The Democrats criticize the Eisenhower administration for policies that have slowed growth or at least permitted it to slow. They point out that the 2 percent rate of increase in real gross national product realized since 1955 is only half as high as the 4 percent prevailing in earlier postwar years and only two-thirds of the long-term rate prevailing for more than half a century. This comparatively slow progress has resulted in higher unemployment and a wider margin of idle industrial capacity.

The Republicans retort that growth is best realized by a free economy and point out that the Democrats really have no program for accelerating growth, except perhaps through increases in government spending. The latter are held to be undesirable on other grounds, but should any increases be needed to halt a recession they would be undertaken by the Republicans themselves.

In much of the discussion, both sides assume a degree of control over economic fluctuations that does not actually exist. Republican spokesmen openly assert that "We need never have another serious depression." The Democrats by implication promise not merely to keep a recession from deepening but to push us ahead to new highs of employment and income.

Continuous Growth Not Assured

There is little doubt that we have the potentials in resources and know-how for achievement of the steady 5 percent growth rate currently held to be desirable. But given existing institutional limitations, there is no assurance of achieving a high rate on the average, or even any growth at all for limited periods of months or years.

Most discussions of the subject focus on potentials only. They consider a limited number of supply factors — such as the labor force, industrial capacity, and productive efficiency — and spell out what would be accomplished if these operated at their maximum capabilities. On this basis, progress possible over a ten- or fifteen-year period seems startling. The hard fact seldom faced in these discussions is that potentialities do not automatically result in the increases projected. If they did, we should not be plodding along in partial idleness as we now are.

Growth is a complex phenomenon, requiring a balanced development that has little tendency to occur automatically and is difficult in our economic and political framework to achieve through planning. A number of the most important variables must expand coordinately if progress is to be maintained over long periods. Demand must grow with production in order that current output be taken off the market. Investment must keep pace, to support both production and demand. The capital stock, which is the product of investment, must expand correspondingly; neither deficiencies nor excesses of capacity can long persist. Marked departures in any of these variables tend to result in cumulative swings of the whole economy away from the growth path.

For this reason, no analysis confined to supply conditions can suffice to define the future course of activity. The idea that a growing labor force will automatically bring increased production is on a par with the idea that a growing population will automatically bring increased demand. When there are insufficient jobs, the additional labor remains unemployed. Jobs, not population, produce income, and when incomes are deficient, additional goods cannot be purchased. These conditions interact. They also interact with private investment, and when all join in a concerted downturn, their force cumulates to a magnitude with which the government cannot readily cope.

Optimum Increases in Productivity

Nowhere is the lack of insight into relationships more apparent than in the tendency of growth forecasters to project the highest rates of productivity increase over long periods into the future. Some go so far as to say that all-out research, innovation, and improvement in efficiency constitute a new way to grow — a wonderful new way because it is in our power to pursue it forever. What they overlook is that the rate of productivity increase should conform, not to a maximum, but to an optimum. For unduly high increases in productivity lead not to continuous growth but to instability.

The immediate gains from rising productivity largely take the form of cost savings realized from displacement of labor. The resulting unemployment restricts demand, and the market tends to lag behind production. Under these circumstances, the growth in potential may still be maintained for a time by high investment and rapidly rising productivity, but nonproduction employment, unemployment, and excess capacity tend to rise in unison. In other words, rapid technological advance tends to increase employment in research and sales promotion staffs at the same time that it reduces employment of production workers and creates excess capacity. The sharp rise of production-worker productivity may then be a warning of danger rather than an assurance of progress.

The speed of technological change is of critical importance in determining its consequences in short-run unemployment. Automation and other devices for accelerating such change may keep activity high but aggravate critical imbalances. These imbalances ultimately bring about a reversal in business and diminish the research from which the technological advance derives.

We already have some experience with persistent unemployment. Its "hard core" often consists of workers whose last employment was as production workers in manufacturing. When such workers have to move into service industries at lower-paying jobs the problem of lagging markets is not resolved. When they use their accumulated savings to move into self-employment, the investment is sustaining, but after a while many of these

(Continued on page 8)

COMMERCIAL JOB PRINTING

Although printing in this country originated in the mid-1600's, it was used primarily for the making of books and newspapers until about a century ago. The occasional and somewhat limited demand for small printing jobs before then was handled mostly as a sideline by publishing firms as a means of supplementing their revenues.

The emergence of commercial job printing as an important industry actually occurred during the last few decades of the nineteenth century when revolutionary developments, such as the invention of the linotype and the rotary press, brought about a vast increase in the quantity of printed materials and opened up large markets for custom printing. Besides the mass circulation publications which soon sprang up, industry and commerce discovered greater varieties of uses for printed matter, ranging from business forms to promotional circulars.

A $4 Billion Business

The commercial job printing industry today is the largest of the various printing trades. With an annual output in excess of $4 billion, the industry accounts for about one-third of all items printed. This figure does not include, however, the 15 to 20 percent of the total job printing which is done by the other printing trades.

Except for lumber products, no other industry in the United States has more establishments than commercial job printing. There are more than 15,000 plants widely scattered throughout the 48 continental states, most of which serve only local demand. One or more plants can be found in nearly every city of more than 10,000 population, as well as in many smaller communities. In general, these printing establishments are dispersed more or less in relation to population and to the concentration of business. Most are small; more than 82 percent maintain fewer than 20 employees and the average has about 15 workers. Of the approximately 2,800 plants with more than 20 employees, somewhat more than half are concentrated in an area extending roughly between New York and Illinois. The job printing industry in 1958 employed 290,000 persons, of whom an estimated 245,000 were production workers.

A wide variety of machines is used in printing today, but the major portion of output is accomplished by three principal methods. Letterpress, the oldest and most common method, accounts for about three-fifths of total production, while lithography and intaglio (gravure printing) produce about 33 percent and 7 percent, respectively.

Problems and Trends

Commercial job printing, because of the large number of establishments, is highly competitive, a circumstance which results in close pricing of print orders. In addition, volume is often related to business fluctuations. Despite the swings in business, the commercial print shop must maintain expensive capital equipment and a highly skilled labor force, which is among the highest-paid in the nation, to ensure year-round service. To offset these difficulties, many of the larger firms seek long-term contracts and faster, more efficient machinery, which is constantly being developed. Formerly most leading firms specialized to obtain the savings of standardization, but in the postwar period they have become increasingly diversified and decentralized to avoid dependence on any one type of printing.

Probably the most notable postwar trend has been the vigorous growth in the utilization of lithography, a method by which images are transferred (or offset) from a thin metallic plate onto a receiving substance (usually paper) by means of a series of chemically prepared rollers. Between 1947 and 1958, lithography rose 202 percent in value of shipments to $1.5 billion, whereas all other types of commercial printing rose only 80 percent. Responsible for this increased popularity of lithography are (1) greater flexibility, such as the ease of printing with four colors even on rough surfaces, (2) the reduction of costly intermediate steps often required by other methods, and (3) the over-all refinements in lithographic equipment and techniques which offer greater speed and longer press runs.

Illinois a Leading Center

Illinois is the nation's second largest commercial printing center, trailing only New York. With nearly 40,000 employees, the 1,300 plants in this State turn out an annual product valued at more than $600 million, nearly 15 percent of the national total. The per-plant output of job printing plants in the State is the highest in the country, averaging $460,000 compared with the $280,000 national average.

Although there are approximately 300 printing plants in downstate Illinois, the major share of production is achieved in Chicago where an estimated 85 percent, or $520 million, of the state's total volume is printed. Chicago's heavy production results from the fact that the city does extensive printing of books, magazines, catalogues, advertising folders, labels, and business forms, much of which is in four colors. In addition, the city's central location makes it an economically desirable shipping point for these and other materials printed in Chicago for national distribution.

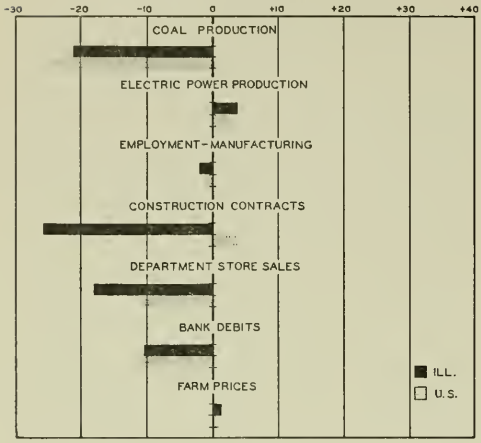
The enormous volume of printing performed in the Chicago area is largely accounted for by the presence of the three largest commercial job plants in the nation. Employing a combined total of 14,000 persons, the W. F. Hall Printing Company, the Cuneo Press, and R. R. Donnelley and Sons produce in tremendous quantities such volumes as mail order catalogues, telephone and business directories, and encyclopedias, as well as large nationally distributed magazines.

The postwar trend toward decentralization, especially by the larger firms, has affected the industry in Illinois and New York, where there has been a slower growth rate than for the nation as a whole. These two states are firmly established in commercial job printing, but because of the tendency toward locating plants near expanding markets they probably will continue to grow more slowly than the regions now experiencing more rapid rates of growth in population and business.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes June, 1960, to July, 1960



ILLINOIS BUSINESS INDEXES

Item	July 1960 (1947-49 =100)	Percentage change from June 1960	Percentage change from July 1959
Electric power[1]	239.5	+ 3.9	+ 0.6
Coal production[2]	55.6	−21.0	− 0.8
Employment—manufacturing[3]	98.4	− 2.0	− 3.7
Weekly earnings—manufacturing[3]	171.4[a]	+ 0.3	− 0.8
Dept. store sales in Chicago[4]	131.0[b]	+ 8.3	+ 0.8
Consumer prices in Chicago[5]	130.4	+ 0.2	+ 1.6
Construction contracts[6]	325.9	−25.6	−24.7
Bank debits[7]	205.7	−10.4	− 6.1
Farm prices[8]	82.0	+ 1.2	+ 3.8
Life insurance sales (ordinary)[9]	271.5	−11.3	−13.0
Petroleum production[10]	122.5	+ 5.9	+ 3.8

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Data for June, 1960, compared with May, 1960, and June, 1959. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	July 1960	Percentage change from June 1960	Percentage change from July 1959
	Annual rate in billion $		
Personal income[1]	407.1[a]	+ 0.2	+ 5.2
Manufacturing[1]			
Sales	367.2[a]	− 0.6	− 0.6
Inventories	54.9[a, b]	− 0.4	+ 5.2
New construction activity[1]			
Private residential	25.8[c]	+ 3.6	− 9.3
Private nonresidential	18.1[c]	+ 3.4	+ 6.3
Total public	18.3[c]	+ 1.3	− 5.8
Foreign trade[1]			
Merchandise exports	20.6[d]	− 4.0	+20.9
Merchandise imports	15.8[d]	+ 4.2	− 4.1
Excess of exports	4.9[d]	−23.6	+664.3
Consumer credit outstanding[2]			
Total credit	53.7[b]	+ 0.3	+13.5
Instalment credit	41.7[b]	+ 0.8	+14.4
Business loans[2]	36.5[b]	− 1.9	+ 9.2
Cash farm income[3]	29.6[d]	+ 7.2	− 5.4
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	109[a, e]	0.0	+ 0.9
Durable manufactures	105[a, e]	0.0	0.0
Nondurable manufactures	116[a, e]	0.0	+ 2.7
Minerals	97[a, e]	+ 1.0	+ 3.2
Manufacturing employment[4]			
Production workers	100	− 0.6	− 2.2
Factory worker earnings[4]			
Average hours worked	100	− 0.5	− 1.0
Average hourly earnings	172	0.0	+ 2.7
Average weekly earnings	172	− 0.5	+ 1.7
Construction contracts[5]	316	+ 3.6	− 1.6
Department store sales[2]	149[a]	+ 2.8	+ 0.7
Consumer price index[4]	127	+ 0.1	+ 1.4
Wholesale prices[4]			
All commodities	120	+ 0.2	+ 0.2
Farm products	89	− 0.1	+ 0.6
Foods	109	+ 1.1	+ 1.2
Other	128	0.0	− 0.2
Farm prices[3]			
Received by farmers	88	+ 1.1	− 1.1
Paid by farmers	119	− 0.8	0.0
Parity ratio	80[f]	+ 1.3	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for June, 1960, compared with May, 1960, and June, 1959. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960					1959
	Aug. 27	Aug. 20	Aug. 13	Aug. 6	July 30	Aug. 29
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,298	1,343	1,339	1,298	1,372	1,217
Electric power by utilities mil. of kw-hr.	14,602	14,453	14,622	14,709	14,746	14,109
Motor vehicles (Wards) number in thous.	54	63	97	118	129	34
Petroleum (daily avg.) thous. bbl.	6,846	6,842	6,834	6,837	6,821	6,765
Steel 1947-49=100	90	90	89	89	88	19
Freight carloadings thous. of cars	595	596	600	594	614	549
Department store sales 1947-49=100	144	139	131	128	122	139
Commodity prices, wholesale:						
All commodities 1947-49=100	119.4	119.3	119.4	119.4	119.5	119.1[a]
Other than farm products and foods 1947-49=100	128.3	128.3	128.3	128.3	128.3	128.4[a]
22 commodities 1947-49=100	85.6	85.4	85.5	85.7	85.7	87.0
Finance:						
Business loans mil. of dol.	30,897	31,114	31,069	31,104	30,981	28,978
Failures, industrial and commercial number	315	279	308	269	293	257

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for August, 1959.

RECENT ECONOMIC CHANGES

Machine Tools

Orders for metal-cutting tools from domestic users continued to decline during July, dropping to the lowest point since November, 1958. The National Machine Tool Builders' Association reported new purchases by United States customers amounted to $22.4 million in July, compared with $25.4 million in June. At the low-point of the 1958 recession, domestic orders dropped to $18.9 million.

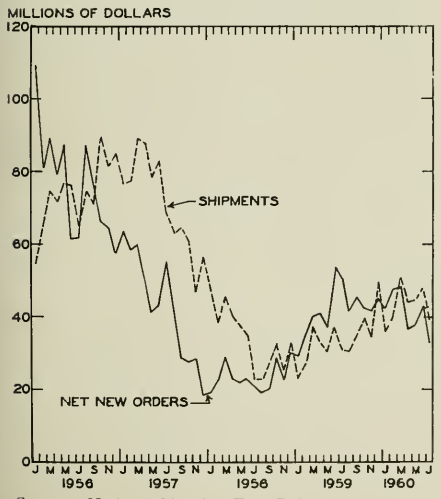
Foreign orders also fell during July after reaching a peak of $17.8 million in June. The decline in foreign business to $10.3 million in July, coupled with the continued reduction in domestic orders, pushed total orders for metal-cutting tools 23 percent below the previous month and 35 percent under July, 1959. Net new orders in July amounted to $32.7 million, compared with $42.6 million in June and $50.7 million a year ago.

Shipments of metal-cutting tools in July, though down sharply from the preceding month, continued to run ahead of orders for the fifth consecutive month (see chart). July shipments fell to $39.5 million from $48.0 million in June. The recent advance of shipments over new orders has cut the industry's backlog from a five-month level at the beginning of the year to 3.9 months at the end of July.

Farm Prices

The index of prices received by farmers fell in August to 234 (1910-14 = 100). This was 2 percent less than the mid-July index of 238. A year ago the index stood at 239. The Agriculture Department reported that lower prices for meat animals, vegetables, and poultry were primarily responsible for the decrease. The prices received by farmers for all species of meat animals averaged about 4 percent lower in mid-August than a month earlier. Beef cattle prices fell to $19.60 per hundredweight, down 90 cents from the preceding month; and hogs were off from $16.60 per hundredweight in July to $16.40 in August. Vegetable and poultry prices were down 6 percent and 7 percent, respectively, during the month.

MACHINE TOOLS



Source: National Machine Tool Builders' Association.

These reductions were only partially offset by advances in the prices for milk, eggs, cotton, and wheat.

The index of prices paid by farmers was unchanged during the month. In mid-August the over-all cost index stood at 298, the same as in July, but up slightly from August, 1959. With farm product prices lower and the cost index unchanged, the parity ratio fell 1 point, from 80 in July to 79 in August.

Nonfarm Housing Starts

The seasonally adjusted annual rate of private nonfarm housing starts dropped in July to 1,154,000 units, according to the most recent Census Bureau report. The July home-building pace was down 10 percent from the June rate of 1,281,000 units.

The agency's report on home-building activity showed that actual public and private starts in July declined to 112,300 units from 125,200 in June. In 1959 total nonfarm housing starts in July amounted to 146,700 units. For private homes only, the figures this year showed 108,600 starts in July, compared with 120,100 in the preceding month and 145,100 a year ago.

By the end of July, new private and public nonfarm dwelling units started this year totaled 755,500, compared with 934,100 in the first seven months of 1959. The latest decline cut the seasonally adjusted rate of private nonfarm housing starts for the first seven months of this year to 1,258,000, almost 19 percent below the corresponding period last year.

Retail Sales

Retail sales in August were maintained at about the same level as in July, according to preliminary estimates by the Department of Commerce. Consumer buying during the month came to just under $18.2 billion, only slightly less than the seasonally adjusted figure for July and about equal to August, 1959, sales.

Last month's stability in retail sales followed a 2 percent decline from June to July. Earlier in the year consumer buying had experienced a sharp advance which ended in a record high of $18.9 billion in April.

In the durable goods sector, retail sales totaled $5.7 billion in August, the same as in July but 6 percent less than a year ago.

Employment

Total employment declined to slightly under 68.7 million workers in August, a reduction of 407,000 from the previous month. The August drop in employment was unusual; normally total employment shows little change from July to August.

The number of jobless also fell during the month, but the 229,000 decline was only about half the seasonally expected decrease for August. As a result, the seasonally adjusted rate of unemployment rose to 5.9 percent of the total work force, the highest rate since last November.

Labor Department data, in thousands of workers, are as follows:

	Aug. 1960	*July 1960*	*Aug. 1959*
Civilian labor force	72,070	72,706	70,667
Employment	68,282	68,689	67,241
Agricultural	6,454	6,885	6,357
Nonagricultural	61,828	61,805	60,884
Unemployment	3,788	4,017	3,426
Seasonally adjusted rate	5.9	5.4	5.4

RURAL MIDWESTERN VOTING TRENDS

CHARLES B. HAGAN, Professor of Political Science
and
CARL D. McMURRAY, Research Assistant in Political Science

The swing to the Democratic Party in the popular vote for representatives in 1958 is manifest in 41 of the 43 congressional districts in Illinois, Iowa, and Wisconsin. In these three states the Republicans elected 29 representatives in 1954, 28 in 1956, and 20 in 1958. The Democrats rose from a minority of 14 to a majority of 23. Six of the eight Republican losses in 1958 occurred in nonmetropolitan districts, that is, districts outside the Chicago, East St. Louis, and Milwaukee areas. Since we are dealing with the voting of the rural population in this study, the analysis is limited to the 27 districts outside these centers. In these the number of Republican representatives declined from 24 in 1954 to 18 in 1958.

The usual explanation of the spectacular increase in Democratic strength in 1958 is an increasing opposition on the part of the farmer to Agriculture Secretary Benson's policies. That explanation assumes a unified "farm vote" capable of violent swings from election to election and is consistent with the traditional view of Midwestern politics which holds that the towns furnish the stable Republican vote while the farmers' vote swings.

In contrast with this view, we find that the farm population has more steadily supported the Republican Party during this period than have small-town residents. The shift of popular vote away from the Republicans in small-town and city voting has been coupled with a fluid segment of the farm vote to produce a marked drift toward the Democrats. The drift is generally steady and is manifest in the decline in the number of safe Republican districts as well as in the increasing number of Democrats elected to the House.

The evidence to support these conclusions will be presented in the following ways: (1) the 1958 election results of the Republican representatives who supported Secretary Benson's program, and (2) the trend in the popular vote in the 27 nonmetropolitan districts which have sizable farm populations. In order to use the most homogeneous political unit for which election data were generally available, the section comparing population characteristics and vote shifts uses the county as the basic unit for study. Indiana has been omitted because the 1958 county election data by congressional districts were not readily available. It should be noted, however, that six districts in that state shifted from the Republican to the Democratic column in 1958, and five of those districts have agricultural and population characteristics similar to the 27 districts considered in this analysis.

The Farm Vote and Benson

The first ground for doubting that the election results in these districts were influenced primarily by Secretary Benson's policies is the fate of Republican representatives who voted on Senate Joint Resolution 162 in the spring of 1958. This resolution provided that price supports for most farm crops should be continued at the 1957 level without regard for market conditions. Secretary Benson opposed this as contrary to his program of flexible supports. Nonetheless the House passed the Senate-approved measure by a vote of 210 to 172. The parties split: Democrats — Yea 166, No 31; Republicans — Yea 44, No 141. The President vetoed the proposal.

All Democratic representatives from the 27 districts supported the resolution, that is, were "anti-Benson." Twenty-one Republicans from these districts voted: 9 voted No, or "pro-Benson" and 12 voted Yea, or "anti-Benson." All the pro-Benson faction were from Illinois and Iowa. The anti-Benson faction included all the Wisconsin representatives, two from Illinois, and four from Iowa. From the pro-Benson group three failed to be re-elected in 1958: Vursell (Ill., 23rd), Talle (Iowa, 2nd) and Cunningham (Iowa, 5th). From the anti-Benson group, Simpson (Ill., 20th) died and was succeeded by his wife, also a Republican. Le Compte (Iowa, 4th) chose not to run, and the Republican nominee to succeed him was defeated. Tewes (Wis., 2nd), although anti-Benson, was defeated.

These and other results of the 1958 congressional election are inconclusive as proof of a farm revolt against Benson's agricultural policies. An examination of the popular vote shows that both pro-Benson and anti-Benson Republicans were losers, and percentage-wise the anti-Benson Republicans frequently lost a greater share of their support than the pro-Benson Republicans.

The losses may be summarized in the following way. In Illinois the mean percentage of vote loss for the six pro-Benson representatives was 4.3 percent. One district, the 15th, distorted that figure with a disproportionate drop from 1956 in Mason's percentage of the vote. The only anti-Benson Republican running for re-election, Springer (Ill., 22nd), suffered a loss of 1.8 percent of the popular vote. Mrs. Simpson (Ill., 20th) suffered a 4.3 percent loss from her husband's winning percentage in 1956. That decrease was greater than the 2.3 percent lost by Vursell (Ill., 23rd), who was defeated.

Despite the unanimous anti-Benson position of the six Wisconsin Republicans, they suffered a mean percentage loss of 6.4 percent of the popular vote. This loss was greater than the mean loss of either faction in Illinois and Iowa. As a result of Republican losses in Wisconsin, the Democrats defeated Tewes (Wis., 2nd) and filled a vacancy in the 1st District.

The election results in Iowa challenge most seriously the view that anti-Bensonism influenced the election results in 1958. Three Iowa representatives were pro-Benson and two of these were defeated in 1958. The mean loss of popular vote of these three Republicans was 3.5 percent. The pro-Benson candidate who won lost 4.6 percent in the popular vote, somewhat more than the losses of his unsuccessful companions. On the other hand

TABLE 1. PARTY VOTING IN RURAL ILLINOIS

Percent of farm population	Number of counties	Percent of Republican vote (Mean)			Percent shift in Republican vote (Mean)		
		1954	1956	1958	1954-56	1956-58	1954-58
Under 10%	3	59.3	59.7	57.4	+0.4	−2.3	−1.9
10%–19%	10	57.9	57.0	53.0	−0.9	−4.0	−4.9
20%–29%	19	56.3	56.3	51.8	−0.2	−4.5	−4.7
30%–39%	32	59.3	59.1	54.4	−0.2	−4.7	−4.9
40%–49%	22	60.6	60.5	56.3	−0.1	−4.2	−4.3
50%–59%	9	54.6	54.3	50.2	−0.3	−4.1	−4.4
60%–69%	3	57.5	55.6	54.6	−1.9	−1.0	−2.9

TABLE 2. SAFE AND UNSAFE ILLINOIS COUNTIES

	1954	1956	1958
Safe Republican	44	41	27
Safe Democratic	3	2	7
Unsafe	51	55	64

TABLE 3. PARTY VOTING IN RURAL IOWA

Percent of farm population	Number of counties	Percent of Republican vote (Mean)			Percent shift in Republican vote (Mean)		
		1954	1956	1958	1954-56	1956-58	1954-58
Under 10%	1	52.3	48.4	45.4	−3.9	−3.0	−6.9
10%–19%	8	52.5	52.4	46.8	−0.1	−5.6	−5.7
20%–29%	9	53.6	55.0	51.0	+1.4	−4.0	−2.6
30%–39%	10	65.4	55.2	50.8	−10.2	−4.4	−14.6
40%–49%	23	62.8	57.2	51.7	−5.6	−5.5	−11.1
50%–59%	39	63.6	56.4	52.5	−7.2	−3.9	−11.1
60%–69%	9	60.4	53.4	50.9	−7.0	−2.5	−9.5

TABLE 4. SAFE AND UNSAFE IOWA COUNTIES

	1954	1956	1958
Safe Republican	56	27	10
Safe Democratic	1	0	7
Unsafe	42	72	82

the four anti-Benson representatives show a mean percentage vote loss of 4.7 percent with the three successful candidates in this set losing 4.9 percent.

The wholesale loss of votes by anti-Benson Republicans does not support the proposition that these candidates were simply unsuccessful in divorcing themselves from the farm policies of the Administration. The 1958 results in these three states were, more accurately, produced by (1) the general movement away from the Republican Party of a substantial portion of the electorate in the 27 districts being studied and (2) the existence of a large surplus of Republican votes in a number of these districts. The Democrats were able to increase their proportion of the popular vote in 21 of the 23 Republican districts in this set, but they were able to add only six of these districts to the Democratic column. Putting the conclusion another way, the Democrats were able to win only those Republican districts which were "unsafe."

Biggest Shifts in Small Towns

In order to identify the source, or sources, of the current electoral shift in terms of the demographic characteristics, it is necessary to select a political subdivision more homogeneous in farm and nonfarm population characteristics than the congressional district. The county has been selected as the basic unit for analysis because the size of the farm population in these units frequently approaches 70 percent, so that the vote is more likely to describe the voting pattern of the farm population than it is in congressional districts where the farm population generally averages below 50 percent.

The counties in the 27 nonmetropolitan districts are classified by state according to rank in percentage of farm population. The mean percentage of the Republican vote in the last three congressional elections is tabulated for each such set, and the shift in the Republican percentage is shown. Table 1 shows the shift for Illinois.

Table 2 indicates the number of "safe" counties as determined by the congressional election results in 1954, 1956, and 1958. A safe county is one in which more than 60 percent of the votes cast are for the candidate of one party.

Two aspects of the Illinois tables are noteworthy: (1) the loss of safe counties by the Republicans from 1954 to 1958, the off-year elections, and (2) the major shift toward the Democratic Party which has taken place in counties with a predominantly nonfarm population. The shift in popular vote in the last three elections has resulted in a reduction from 44 to 27 of the number of safe Republican counties in Illinois, but there has been no concomitant equal gain in safe counties for the Democrats.

The largest shifts in election results have occurred where the farm population comprises only 10 to 40 percent of the total. In these counties most of the population resides in towns or cities ranging from 500 to 25,000 persons. The significance of this trend is better appreciated when it is understood that approximately 60 percent of Illinois counties fall in this category. Counties with the greatest percentage of farm population have shown a mean vote shift of only 2.9 percent toward the Democratic Party, and the electorate of these counties show a stability in their support of Republican congressional candidates exceeded only by the predominantly urban counties with less than 10 percent of their population living on farms. Briefly stated, the most stable Republican counties in Illinois nonmetropolitan districts come from the extremes of the farm population continuum: (1) those counties with the largest farm population percentages, and (2) those counties with the smallest farm population percentages. These findings are contrary to explanations that assert the small town to be the hard core of Republicanism and the farm vote to be fluid.

The presidential year, it will be noted, manifests a different pattern from the off-year. The 1956 Republican losses in congressional elections are much smaller than corresponding losses between 1956 and 1958. The explanation for this may lie in the coattail effect of a popular presidential candidate able to retard momentarily the upsurge of Democratic strength. It will be interesting to see whether the Republican candidate this year can reduce, or reverse, the downward trend.

The Iowa voting pattern in recent congressional elections (see Tables 3 and 4) is similar to that for Illinois, but the magnitudes of the vote shifts in both the nonfarm and farm populations appear to be greater in Iowa. There have been more substantial Republican vote losses in more counties than in Illinois, with the losses located in generally the same types of counties. The farm population in Iowa seems more inclined to switch to the Democratic Party than its Illinois counterpart.

The voting pattern in congressional elections in Wisconsin shows some striking differences when compared with the patterns for Illinois and Iowa. (See Tables 5 and 6.) The differences are most apparent in the presidential-year and off-year fluctuations. The Republican percentage of the total vote tends to dip more sharply in Wisconsin in off-year elections. Nonetheless, the increase in the strength of the Republican vote in 1956 simply accentuated the losses incurred between 1956 and 1958. Since the Republican vote losses in counties with the

TABLE 5. PARTY VOTING IN RURAL WISCONSIN

Percent of farm population	Number of counties	Percent of Republican vote (Mean)			Percent shift in Republican vote (Mean)		
		1954	1956	1958	1954-56	1956-58	1954-58
Under 10%	0	....	....	....	....	....	....
10%–19%	9	55.9	58.9	53.9	+3.0	−5.0	−2.0
20%–29%	11	57.5	62.1	54.7	+4.6	−7.4	−2.8
30%–39%	10	61.2	63.1	57.4	+1.9	−5.7	−3.8
40%–49%	15	64.3	65.7	58.4	+1.4	−7.3	−5.9
50%–59%	19	55.5	58.4	51.9	+3.6	−6.5	−2.9
60%–69%	6	56.7	60.6	56.1	+3.9	−4.5	−0.6

TABLE 6. SAFE AND UNSAFE WISCONSIN COUNTIES

	1954	1956	1958
Safe Republican	37	43	25
Safe Democratic	2	1	9
Unsafe	31	26	36

largest farm populations are smaller than the Republican vote losses in counties with 30 to 49 percent of the population living on farms, it is inferred that the excess over the normal off-year Republican losses in 1958 was most prominent in small-town areas and least prominent in counties with the largest farm populations. In summary, the pattern of the vote shift in Wisconsin is similar to that in Iowa and Illinois, but the characteristically sharp drop in the Wisconsin Republican vote in off-year elections obscures the extent of the shift to the Democrats.

When the counties in the Illinois 23rd District were ranked by the percentage of population living on farms and by the percentage of the total vote going to the Republican candidate in 1958, the correlation between the two rankings was positive, although it was not very significant. A similar test for Iowa's 2nd, 3rd, and 4th Districts, all of them nonmetropolitan districts that switched to the Democratic columns in 1958, produced similar results. In both cases these tend to support the previous conclusion that farmers in these states have been more reluctant to join the trend away from the Republican Party than other segments of the population.

Forecast for November

The trends in popular vote shifts between 1954 and 1958 have been calculated in percentages for these 27 districts. After making allowances for the usual pattern of presidential-year and off-year fluctuations in Republican Party strength, Table 7 projects the past trends into the 1960 congressional elections in these districts.

The Democratic Party seems likely to gain one district in Illinois, the 19th, and three districts in Iowa, the 3rd, 7th, and 8th; and to lose one district in Wisconsin, the 1st. The net gain of three seats for the Democrats (four if the Iowa 4th is counted as Republican now) is a continuation of the Republican decline in recent elections. The magnitude of the decline varies in the different districts and indeed in a very few districts there is a counter-trend. However, the trend to the Democrats is widespread and in approximately the same proportions of the popular votes as in the earlier elections.

In our view the trend is independent of presidential voting in a substantial degree. It seems altogether unlikely that the Republican candidate for president this year can provide as much coattail support as the candidate did in 1956. If the voters elect a Republican to the presidency this year, divided government is in prospect in Washington for another two years. It is virtually impossible for the Republicans to gain control of the Senate, and if our estimates are correct the House of Representatives will also remain in the control of the Democrats.

TABLE 7. PROJECTED PERCENTAGES IN POPULAR VOTES IN 27 DISTRICTS IN ILLINOIS, IOWA, AND WISCONSIN, 1960

District number	Republican candidate	Vote (Percent)	Democratic candidate	Vote (Percent)
Illinois				
14	Hoffman*	62.3	Beall	37.6
15	Mason*	54.4	O'Brien	45.6
16	Anderson	57.4	Nelson	42.6
17	Arends*	61.0	Larkin	39.0
18	Michel*	60.8	Estep	39.2
19	Chiperfield*	49.8	Watson	50.2
20	Findley	52.2	Carrott	47.8
21	Ackerman	42.5	Mack*	57.5
22	Springer*	60.7	Nally	39.3
23	Walker	49.6	Shipley*	50.4
25	Kerr	40.6	Gray*	59.4
Iowa[a]				
1	Schwengel*	54.4	Guenther	45.6
2	Bromwell	44.8	Wolf*	55.2
3	Gross*	49.9	Gallagher, Jr.	50.1
4	Kyl*	43.2	Gilmour	56.8
5	Burgeson	43.3	Smith*	56.7
6	Rielm	32.0	Coad*	68.0
7	Jensen*	46.4	Orton	53.6
8	Hoeven	48.8	O'Brien	51.2
Wisconsin				
1	Schadeberg	52.1	Flynn*	47.8
2	Tewes	47.6	Kastenmeier*	52.4
3	Thomson	50.3	Clapp	49.7
6	Van Pelt*	57.8	Megellas	42.2
7	Laird*	63.0	Traeger	37.0
8	Byrnes*	60.0	Singler	40.0
9	Hull	40.7	Johnson*	59.3
10	O'Konski*	71.4		28.6

[a] It should be noted that the Iowa 4th is expected to be Democratic, although the incumbent is a Republican. Mr. Kyl, the incumbent, was elected in 1959 following the death of Mr. Carter, Democrat, who had been elected in 1958.
* Incumbent.

Can Growth Be Maintained?

(Continued from page 2)

small enterprises use up all their capital, and their liquidation is deflationary. All these developments — lagging markets, slowly increasing unemployment held to moderate proportions by shifts of workers into nonproduction jobs, and rising business failures — are characteristics of a boom approaching its end.

What ultimately forces the downturn is the growth of excess capacity and the consequent curtailment of new investment. Such a turn may be foreshadowed in downward revisions of investment plans. As investment drops off, capacity becomes so excessive that improvement of efficiency no longer becomes an effective force for maintaining investment. Profits also drop off. So both the need for research and the means of financing it largely disappear. Then the major impact of unemployment shifts to the nonproduction staff.

The Role of Investment

At various points in most discussions of growth appear references to the rate of investment. The reason is that so-called investment expenditures play a triple role in the growth process. They are needed, first, to absorb the savings that accrue from high incomes; second, to bring the capital stock into line with production requirements; and third, to make the advances in technology effective in the production process. There are no automatic regulators to bring total investment expenditures to the level called for by all these criteria and, as a corollary, there is no basis for concluding that the economy can be safely left to itself if it is merely freed of such restrictions as tight money.

Even further, there is no reason to think that all three of these criteria would call for the same level of investment. This implies, if stable growth is to be achieved, that there should be different kinds of investment, some of which may be autonomous, or respond automatically, and others which can be adjusted to bring aggregate investment expenditures to the level required by the overall situation. Adequate control on this basis is still far from achievement, but something of this philosophy seemingly underlies the Democrats' proposals for expansion of public works programs.

If the Republicans really mean what they say about taking care of the economy during recessions, the disagreement may largely reduce to a difference in views about proper timing. The Democrats want action when the economy begins to lag. The Republicans prefer to wait, even beyond the point where 5 or 6 percent of the labor force is unemployed, until a definite downturn is under way and then try for a quick recovery. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Changes in Income of Older Persons

The most important source of income in 1959 for 15.5 million persons in the nation aged 65 years and over was the old-age, survivors, and disability insurance system, according to the August, 1960, issue of *Business Record.* More than 10 million persons, or 64 percent of those 65 years old and over, received monthly checks from the OASDI system, compared with 1.5 million, or 13 percent, in 1948. Only 25 percent of those aged 65 and over obtained income from employment in 1959, in contrast to 33 percent in 1948. Income derived from public assistance declined in importance during the period, the proportion receiving income from this source dropping from 21 percent in 1948 to 16 percent in 1959. The percentage of older persons having no money income or income solely from sources other than employment or government programs fell from 29 percent in 1948 to only 7 percent in 1959.

The proportion of persons aged 65 and over with annual incomes of less than $1,000 was 57 percent in 1958, down 10 percentage points from the 1948 level. The proportion of older persons receiving annual incomes between $1,000 and $2,000 rose from 18 percent in 1948 to 23 percent in 1958, and the proportion of those receiving incomes of $2,000 or more a year increased from 16 percent to 20 percent during the period.

Drop in Net Farm Income

In 1959 net farm income per farm in the United States, exclusive of Alaska and Hawaii, amounted to $2,548, about 4 percent below the 1958 level. All but eleven states experienced decreases in net farm income per farm, with South Dakota having the greatest percentage decline (55 percent). The Arkansas increase in income per farm amounted to 42 percent, leading all other states in the nation. Arizona had the highest net farm income per farm with $11,391, while West Virginia was lowest with only $800 per farm (see chart).

Illinois ranked twelfth with an average $3,342 in 1959, about 26 percent lower than in 1958. This figure represents only the third time that the average annual income per farm in Illinois has been below $3,700 since 1949. A major factor in the fall in 1959 net farm income per farm was the decline in cash receipts from livestock. These fell $132 million to slightly less than $1.2 billion. Owing also to declines in crop receipts and government payments, total receipts from farming dropped about $200 million to a total of slightly less than $2.0 billion.

Gains in Retail Sales

The annual sales of all retail stores in the United States, exclusive of Alaska and Hawaii, set a new record in 1959 of slightly over $215 billion, 8 percent above the 1958 level. Sales in durable goods stores rose 13 percent to total $72 billion, and nondurable goods store sales amounted to $144 billion, up 5 percent from the previous year. All major components of retail business shared in the new record, with the greatest increase occurring in the automotive group, which advanced 16 percent.

Among the four regions of the country, the West experienced the greatest percentage increase in retail sales; there they were up 11 percent from 1958. This gain was primarily the result of the 23 percent advance in automobile sales in the region. Retail sales in both the North Central region and the South rose 8 percent, and the Northeast region gained 5 percent from 1958.

In 1959 per capita retail sales in the 48 states amounted to $1,235, about 6 percent more than in 1958. The West had per capita sales amounting to $1,461, approximately 18 percent higher than the national average. Per capita sales were estimated at $1,278 in the Northeast, $1,267 in the North Central region, and $1,063 in the South.

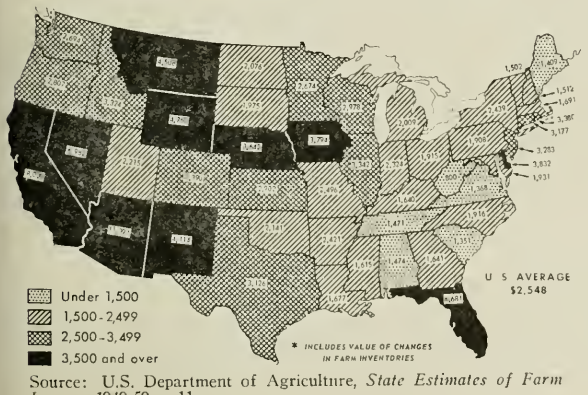
A Business Indicator

The July, 1960, issue of *Business Record* reports that the Conference Board has constructed a help-wanted index which can be related to general business movements and particularly to employment and unemployment statistics. This index is based on the number of help-wanted ads published in the classified section of one leading newspaper in each of the 33 cities representing 33 major labor market areas in the nation.

The supposition that underlies the use of help-wanted data for business analysis is that the level of help-wanted advertising at any time reflects employers' demand for labor. Some attractive features of the index are its timeliness and its flexibility. The index can be calculated from readily available data and can be arranged to cover different regional units.

From 1951 to 1960, the help-wanted index has shown a high degree of sensitivity to the general business cycle and particularly to labor market conditions. It has led by several months at the last two peaks in general business activity and employment. However, there appears to be no comparable lead occurring at the troughs of the cycles during this period. At the trough the initial upturn in employment is accounted for by the direct recall of workers previously laid off, which requires little or no advertising. This has resulted in the index lagging slightly at the trough.

TOTAL NET FARM INCOME PER FARM, 1959*



Source: U.S. Department of Agriculture, *State Estimates of Farm Income, 1949-59,* p. 11.

LOCAL ILLINOIS DEVELOPMENTS

In July the major indexes of Illinois business reflected the general uncertainty in business conditions. Seasonally adjusted department store sales in Chicago increased 8 percent over June, and petroleum production rose 6 percent. However, construction contracts dropped 26 percent, and declines of 21 percent and 11 percent, respectively, were experienced in coal production and life insurance sales during the month.

Chicago's Improvement Program

The Department of City Planning of Chicago has prepared an outline of a capital improvement program requiring the expenditure of $692 million on public improvements in Chicago from 1960 through 1964. A total of $87 million is presently under contract.

The plan calls for about $325 million, or 47 percent of the total, to be spent on improvements of expressways, bridges, viaducts, and streets. The three Chicago airports are to receive $109 million, the major proportion of which will be used for the development of new terminal facilities at the O'Hare-Chicago International Airport. Other projects in the plan include sewer and filtration plant construction, and improvements of harbors, public buildings, and park facilities.

In addition to the city projects, the capital improvement program describes the planned construction projects of urban renewal agencies and of other local government bodies other than the city of Chicago. These agencies plan capital expenditures during the 1960-64 period amounting to $1.2 billion, or almost twice the total in the city program.

Rising Personal Income

According to the August, 1960, issue of the *Survey of Current Business,* Illinois personal income established a new record of $25.7 billion in 1959. This was a gain of about 6 percent over 1958 and 30 percent over 1954. Of the 1959 personal income, $21.4 billion was from private nonfarm sources, of which the three largest contributors were manufacturing ($7.3 billion), trade ($4.3 billion), and services ($2.6 billion). Farm income accounted for slightly over 2 percent of the state's personal income, and government income disbursements represented 14 percent of the total.

Illinois retained its third place rank in total personal income among the 50 states and the District of Columbia, being preceded only by New York and California. However, on the basis of per capita income Illinois ranked seventh, having an average per capita income of $2,610 during 1959. This also was a record high for the State, 4 percent above 1958 and 20 percent above 1954 (see chart). Illinois has always ranged well above the national per capita income average. However, it exceeded the national average by little more than 20 percent in 1959, compared with an average of about 24 percent from 1954 through 1957.

New Construction Plans

The Rural Electrification Administration has granted a loan of $25.8 million to the Southeastern Illinois Electric Co-operative for the construction of a new electric power plant near Marion, Illinois. The plant will have three generating units with rated total capacity of 99,000 kilowatts, and will be in operation by 1963. The new electric power plant will contribute to the future economic development of southern Illinois. It is estimated that the plant's beginning coal consumption will be about 113,000 tons a year, rising by 1975 to about 167,000 tons a year. The plant's initial payroll is estimated at $170,000 a year.

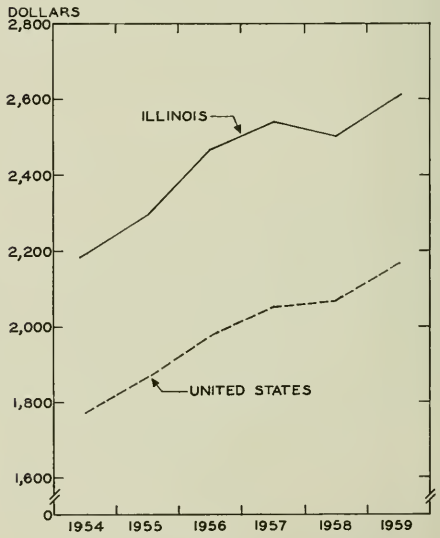
The Chicago Regional Port District has started a major expansion program which is expected to double the present capacity of the Lake Calumet Port. Construction plans call for a 3,500-foot wharf which will handle eight ocean-going vessels simultaneously, accompanying cargo sheds, and a warehouse. Dock facilities for handling steel cargoes will be built, and a large elevator will be erected to supplement the two elevators presently located in the port. The construction of a six-unit truck terminal to serve the entire port area and the erection of recreational facilities for ships' crews are also in the plans.

Tax Collections Up

Total state tax collections in the United States reached an all-time high of $18 billion in fiscal 1960, according to preliminary data published by the Bureau of the Census. All of the major tax categories shared in the net gain of $2.2 billion, which represents an increase of 14 percent over the previous year's tax collection.

Tax receipts in Illinois also were at a record high of $836 million, with Illinois ranking sixth among the states in tax collections. This record sum was 13 percent higher than in fiscal 1959. All major tax groups contributed to this rise, with the exception of property tax collections, which dropped 17 percent from 1959. The largest percentage increase came from the sales and gross receipts taxes, which advanced 15 percent. The rise in these taxes accounted for 94 percent of the state's total tax receipt increase over 1959 and was due primarily to the hike in the tax rate from 2.5 cents to 3.0 cents, which took effect on July 1, 1959.

PER CAPITA PERSONAL INCOME



Source: U.S. Department of Commerce, *Survey of Current Business,* August, 1960, p. 17.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1960

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$43,120[a]	1,168,657[a]	$549,213[a]		$17,978[a]	$15,030[a]
Percentage change from June, 1960	+5.3	+1.7	−4.4	−18	−10.4	−2.9
Percentage change from July, 1959	+20.1	+0.8	n.a.	−3	−6.1	+10.0
NORTHERN ILLINOIS						
Chicago	$32,333	867,548	$398,085		$16,461	$12,989
Percentage change from June, 1960	+26.5	+2.3	−5.0	−18	−10.9	−3.0
Percentage change from July, 1959	+42.2	−2.5	n.a.	−3	−6.2	+9.8
Aurora	$1,613	n.a.	$ 9,646		$ 89	$ 143
Percentage change from June, 1960	+42.4		+4.5	−17	−3.0	−13.5
Percentage change from July, 1959	−5.9		n.a.	+8	+5.6	+12.0
Elgin	$ 397	n.a.	$ 6,121		$ 53	$ 113
Percentage change from June, 1960	+82.1		+4.0	n.a.	−5.6	+0.0
Percentage change from July, 1959	−54.9		n.a.		−4.2	+37.4
Joliet	$ 635	n.a.	$11,075		$ 99	$ 107
Percentage change from June, 1960	−85.7		−1.1	−13	+8.7	+0.2
Percentage change from July, 1959	−53.0		n.a.	+2	+1.0	+10.6
Kankakee	$ 183	n.a.	$ 5,281		n.a.	$ 55
Percentage change from June, 1960	−67.3		+9.4	n.a.		−19.7
Percentage change from July, 1959	−15.7		n.a.			+12.7
Rock Island-Moline	$1,776	27,074	$11,745		$ 121[b]	$ 146
Percentage change from June, 1960	−41.3	+8.3	+0.4	n.a.	−10.6	+9.4
Percentage change from July, 1959	+97.6	−2.3	n.a.		−2.4	−6.1
Rockford	$1,609	46,971[c]	$17,665		$ 215	$ 209
Percentage change from June, 1960	+509.5	−1.1	−7.4	−15[c]	−0.4	−11.3
Percentage change from July, 1959	+19.4	−0.4	n.a.	−8[c]	+2.1	+7.0
CENTRAL ILLINOIS						
Bloomington	$ 375	9,599	$ 5,223		$ 85	$ 96
Percentage change from June, 1960	−74.4	−5.2	−8.2	n.a.	+6.7	−10.6
Percentage change from July, 1959	−59.5	+6.3	n.a.		+1.4	+7.4
Champaign-Urbana	$1,112	15,058	$ 7,488		$ 84	$ 108
Percentage change from June, 1960	+297.1	+6.0	−13.9	n.a.	−4.7	−6.8
Percentage change from July, 1959	+151.6	+1.8	n.a.		−3.8	+0.7
Danville	$ 208	13,913	$ 5,844		$ 55	$ 84
Percentage change from June, 1960	−57.9	+1.0	−11.4	−9	+5.3	+27.5
Percentage change from July, 1959	−16.8	+1.0	n.a.	−5	−6.1	+57.7
Decatur	$ 114	33,015	$11,012		$ 117	$ 111
Percentage change from June, 1960	−84.2	−1.1	−8.1	−15[c]	−10.2	−12.1
Percentage change from July, 1959	−84.6	−10.8	n.a.	−6[c]	−11.4	−1.7
Galesburg	$ 438	8,086	$ 4,546		n.a.	$ 49
Percentage change from June, 1960	+97.3	−3.6	+4.0	n.a.		+23.1
Percentage change from July, 1959	+44.1	−4.3	n.a.			+23.8
Peoria	$ 741	52,989[c]	$18,471		$ 234	$ 275
Percentage change from June, 1960	+64.7	−13.3	+0.3	−17	−7.4	−10.2
Percentage change from July, 1959	−42.5	−10.4	n.a.	−8	−6.9	+8.6
Quincy	$ 189	n.a.	$ 5,328		$ 48	$ 78
Percentage change from June, 1960	−45.7		+2.3	−5	−19.7	+17.5
Percentage change from July, 1959	+9.2		n.a.	−18	−5.2	+11.2
Springfield	$ 875	43,464[c]	$12,482		$ 132	$ 269
Percentage change from June, 1960	−11.2	+13.9	−11.2	−14[c]	−4.4	−5.1
Percentage change from July, 1959	−48.3	−2.5	n.a.	+1[c]	−12.9	+18.8
SOUTHERN ILLINOIS						
East St. Louis	$ 83	17,341	$ 9,095		$ 140	$ 115
Percentage change from June, 1960	−20.2	+7.7	+2.3	n.a.	−12.5	+62.1
Percentage change from July, 1959	−71.7	+5.0	n.a.		−9.4	+14.3
Alton	$ 255	21,821	$ 5,109		$ 46	$ 35
Percentage change from June, 1960	−45.4	−1.7	−0.2	n.a.	−7.7	−6.1
Percentage change from July, 1959	−11.2	−24.5	n.a.		−5.3	−1.7
Belleville	$ 184	11,777	$ 4,996		n.a.	$ 49
Percentage change from June, 1960	−4.2	+4.4	+7.0	n.a.		+2.7
Percentage change from July, 1959	−50.8	+6.8	n.a.			+10.6

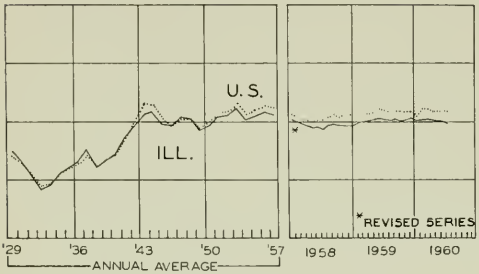
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for June, 1960. Comparisons relate to May, 1960, and June, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending July 22, 1960, and July 24, 1959.

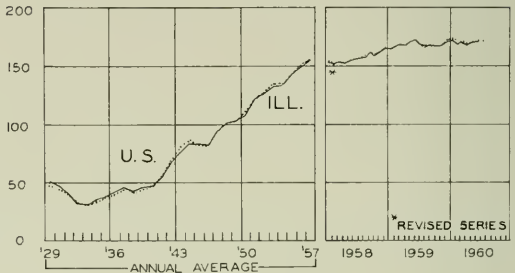
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

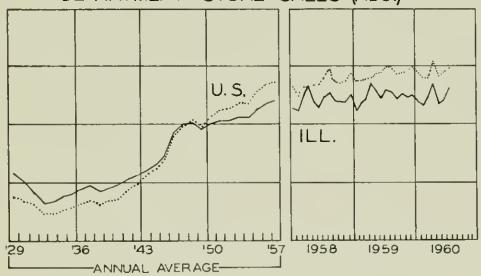
EMPLOYMENT MANUFACTURING



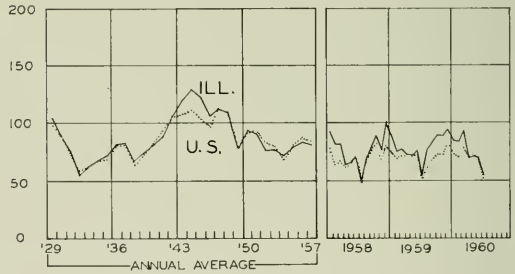
AVERAGE WEEKLY EARNINGS — MANUFACTURING



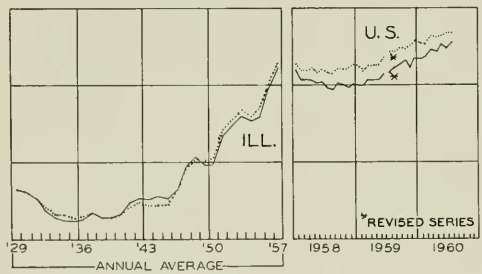
DEPARTMENT STORE SALES (ADJ.)



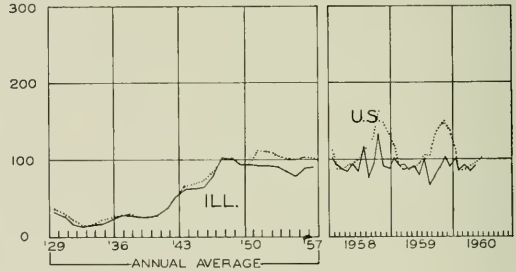
COAL PRODUCTION



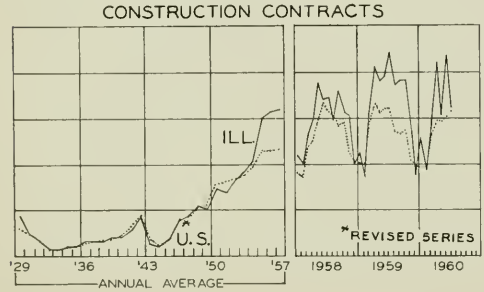
BUSINESS LOANS



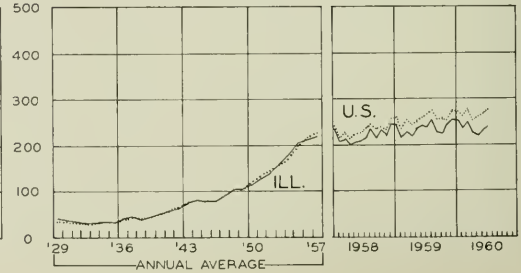
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

The economy sagged somewhat further in September. The index of industrial production lost another point, bringing it to 107 (1957 = 100). Steel production averaged about 53 percent of capacity, about the same as in the preceding two months. Automobile production increased rapidly during the month, as manufacturers worked to provide dealers with a full stock of the new models; September output amounted to 407,700 cars, compared with 307,500 in August and 258,200 in the year-earlier month. However, most other available indicators of production were unchanged or down, although production normally rises in September.

Department store sales declined 2 points in September to 142 (1947-49 = 100), well below July's 149. Domestic sales of American-built automobiles amounted to 422,700 units, 12 percent less than in August but 21 percent ahead of the low September of 1959. Pressure of record inventories for this time of year and the early introduction of several 1961 models helped to lift the level of sales.

Construction Up Slightly

The value of new construction put in place rose slightly in September. The total of $5.3 billion for the month was 1 percent above August, all of the increase occurring in public construction. The latter rose 3 percent to $1.7 billion, whereas private construction remained at $3.6 billion. The September seasonally adjusted annual rate of total new construction was $55.4 billion, 1 percent more than in August and about the same as in September a year ago when the steel strike was pinching building activity.

Private construction continued to run behind 1959. The September total was 4 percent under the year-earlier month. A drop of 13 percent over the year in spending for construction of private residential buildings accounted for the decline. Private nonresidential building, farm construction, public utilities, and other private construction all showed gains over September, 1959. Public outlays for new construction were up 9 percent from the year-earlier month, but the total for the first nine months of the year was still down 5 percent from the corresponding period in 1959.

Sales, Inventories Down Again

In August total sales of manufacturing and trading firms declined for the fourth consecutive month after seasonal adjustment, falling $300 million to $60.6 billion. The drop in sales by manufacturers, all of it in durables, was equal to the decline in the total. A fall of $100 million in sales by wholesalers was offset by a gain of like amount in retail sales, lowering the former to $12.2 billion and raising retail volume to $18.2 billion.

Total business inventories declined for the second straight month, going from $93.3 billion in July to $93.1 billion in August. All of the retrenchment came at the retail level, where stocks dropped to $25.2 billion as a result of reduced inventories of durables, mostly automobiles.

New orders received by manufacturers in August amounted to $29.8 billion, up $600 million from July. Between June and July they had fallen $900 million. Most of the August gain accrued to durable goods manufacturers.

Imports Rise, Exports Fall

The excess of United States exports over our imports during August was the smallest in five months. General imports rose to $1.2 billion, 6 percent above July and 3 percent above August, 1959. Exports of military and civilian goods fell to $1.6 billion, down 5 percent from July and the lowest in four months. Thus the margin of exports over imports was reduced to $382 million, the smallest since the $376 million of March.

Concern over our balance of payments situation has been intensified by the accelerated outflow of gold, which has amounted to about $760 million so far this year. Government trade officials have been trying to expand exports as a means of overcoming the adverse balance, and earlier this year the effort appeared to be yielding results. But exports have declined since April. At the same time higher interest rates in Europe have induced some transfers of funds from this country.

Budget Surplus Down

The official estimate of the federal budget surplus for fiscal 1961 has been reduced to $1.1 billion from the January estimate of $4.2 billion. The current drop in corporate profits was the principal factor in the revision, which nevertheless anticipates a sharp upturn in business this fall. On this basis, prospective 1960-61 federal tax receipts will fall $2.5 billion below the earlier prediction to $81.5 billion. Congressional actions that helped to raise estimated government outlays to $80.4 billion, $600 million above January's estimate, were also blamed.

ECONOMIC PRESSURES IN THE CUBAN SITUATION · · By J. D. Phillips · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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Insurance Muddle

You can insure against almost any possible hazard or loss, and there is a widespread impression that "It's the thing to do!" In the postwar period, insurance has burgeoned in various forms, including hospital, medical expense, accident, disability, fire, comprehensive, collision, property damage, personal liability, malpractice, children's education, credit, and theft. The field is constantly broadening and becoming more complicated.

Many of these types of insurance are promoted in "package deals." The homeowner's "all-risk" package includes fire, comprehensive, liability, and theft at a discount. The auto buyer may be forced by the terms of sale to take, in addition to other coverages, collision and debt-repayment insurance on the same "easy payment" plan designed to sell the car. When the consumer is in a buying mood — as he is bound to be at certain "moments of decision" — he can often be induced to go further.

Most of these kinds of insurance have been rising steadily to new highs. Both losses and rates have pursued similar upward trends. These increases have contributed to the unrestrained expansion of consumer expenditures for services and to the "creeping inflation" reported in the consumer price index.

An Important Fallacy

The buying public appears as both victim and perpetrator in this drama of sharply rising costs. It steps up its coverage continually but often shows little awareness of what it needs or wants. Many people seem to confuse the words insure and ensure — as if the policy they buy could eliminate the hazard itself.

Among the most common fallacies in the mind of the policyholder is the notion that he does not have to pay if a loss occurs. Large losses have to be covered, of course, by the company, which pools many small payments. What seems to be overlooked is that the payments do cover the losses, and more too. Costs of administration, including TV and other advertising, personnel costs, and office expenses, have risen in percentage as well as in amount. Premiums paid for accident, health, and auto insurance have more than doubled since 1950. In 1959, they exceeded claims by $3 billion, and this represented a charge of almost 1 percent against disposable personal income of $337 billion. (Life insurance, not included in this discussion, involved expenses of over $4 billion.)

This attitude of "getting something for nothing" is not merely mistaken. It is important because it leads to a loss of public responsibility. The public generally has become careless about damage and repair costs, and the overseer function cannot readily be assumed by the insurance companies. Where responsibility is lacking, there is no control on waste and chiseling. An open season has been declared for profiteers, tricksters, cheats, and just plain crooks. Even in the courtroom, this misconception has effects; juries feel they can be liberal with other people's money and often make inordinate awards on the claims cases before them. The average award has been rising several times faster than the cost of living.

Insurance Increases the Risks

Part of the increase in insurance costs has no doubt been due to the natural increase in hazards. There are more cars on the road and most of them are fancier, harder-to-repair models. There are more houses, constructed at high cost and filled with expensive furnishings. More people in prosperity are ruled by the desire for better medical care. These portions of the increase are consistent with the traditional view of insurance as a device to spread the impact of unavoidable risks.

Increasingly, however, it becomes clear that insurance has the effect of creating or at least aggravating the risks. Trivial accidents turn into compensable injuries when the injured is insured; hula hoops, skin diving, golfmobiles, and do-it-yourself tools, among other things, have produced numerous claims. Restaurants, supermarkets, bowling alleys, and others favor the injury claims of customers they do not wish to antagonize. Lost or even nonexistent property may be reported stolen. Fake reports of car theft are made to avoid penalties or to have damage repaired. Repair bills are padded to cover prior damage or to avoid the effect of deductibles. Unnecessary repairs are made, and excessive medical services are demanded. Practices like these build up losses that inflate the insurance rates paid by honest consumers.

Furthermore, the high demand for services creates profit opportunities for those providing them. Last March reference was made here to the soaring of medical care costs and the way the rise is abetted by insurance plans. The doctor's long-standing practice of setting charges to fit the patient's income gains a new thrust when insurance seemingly turns the poor man into a patient whose ability to pay outstrips that of the rich man. The situation will become increasingly acute with additional aid for the aged, who are often afflicted with chronic or degenerative diseases. The door is also opened to new possibilities in psychoneurotic cases, which in adverse economic conditions could become the greatest of disability risks under income-protection plans.

Something of the same sort has been occurring in auto repair shops. Both standards of repair need and the fees charged are often adjusted upward when the work is covered by insurance. The body-shop operator may be cynical about his customer's desire "to get something back for what he paid in" but is not necessarily averse to a ride on the gravy train himself.

Insurance Company's Dilemma

The insurance companies and underwriters are, of course, well aware of all these practices. They appeal to the doctors and hospitals to reduce unnecessary hospital utilization. They try to channel auto repair work away from the high-cost shops. They cancel the policies

(Continued on page 8)

THE LIMESTONE INDUSTRY

The production of limestone is an important American industry. With annual shipments valued at more than $530 million, it ranks second only to cement among the nonmetallic minerals other than fuels.

Limestone is the giant of the stone industry, which includes minerals such as granite, basalt, marble, sandstone, and slate. In 1958, for example, limestone producers turned out nearly 400 million short tons, a figure which accounted for about seven-tenths by weight and about two-thirds by value of shipments of all stone produced in this country.

The dominance of limestone (which commercially includes dolomite) results from its widespread availability, chemical characteristics, and easy workability, factors which contribute to an economic versatility of nearly 200 uses. A sedimentary rock, limestone is found in every state and produced commercially in all but two.

Illinois — A Major Producer

Illinois is a major limestone-producing state, ranking third after Pennsylvania and Texas in total volume and value of product. In 1958, a record year, more than 34 million tons with a value of $45 million were produced by the approximately 170 quarrying operations in the State. Last year, tonnage was down about 10 percent, primarily because of cutbacks in road construction.

Although limestone beds extend over much of the State, they vary from a few inches to hundreds of feet in thickness and range widely in physical character, utility, and quality. They formed millions of years ago when this part of the nation was beneath a prehistoric sea. Limestone was formed by the accumulation of the shells and other hard parts of animals at the bottom of this sea. Later changes converted some limestone, particularly in northern Illinois, into dolomite, which is primarily a calcium magnesium carbonate. The limestone beds in the western, northeastern, and extreme southern regions of the State, where the heaviest production occurs today, lie near the surface. Between these areas of Illinois, the layers curve downward to form a floor of deeply buried limestone in what is known as the Illinois Basin.

Today, production occurs in about 60 Illinois counties, with Cook County accounting for a large share of total output. Cook, alone, in 1958 produced nearly 12 million tons of crushed limestone, more than one-third of the Illinois total. Actually, the heavy production in Cook and its neighboring counties is not the result of better supplies but rather is primarily the consequence of the demands stimulated by the concentration of economic activity.

Other major producing counties are Du Page, Kankakee, Livingston, Randolph, St. Clair, and Will, each of which reported production of more than one million tons of crushed limestone in 1958. Dimension or "cut" stone, which is produced in small quantities in the State, is made chiefly in McHenry, Ogle, St. Clair, and Union counties. Illinois, with only 3,000 short tons of cut stone in 1958, draws most of its requirements from the large Bedford-Bloomington, Indiana, district, where more than 70 percent of the nation's rough block and finished dimension limestone is produced.

A Diversity of Uses

The most important use of limestone, both nationally and in Illinois, is for road and building construction. The mineral is favored for this use because its wide occurrence makes it the most convenient and inexpensive stone available. Almost all of the limestone crushed in Illinois, which ranks first nationally in production for this use, is suitable as a concrete aggregate or roadstone. For this reason, limestone is a key material in the continuous building and maintenance program of the Illinois highway and road systems. About three-fifths of the limestone crushed in the State during 1958 was applied to roads, with the Cook County area supplying more than half of the 20 million tons used for this purpose. In addition, large quantities are used to satisfy the diverse requirements of the building industry, which utilized more than 6.6 million tons in 1958.

Agriculture is the second largest market for Illinois limestone. Unlike the construction industries, which use limestone mostly in pebble-sized pieces, agriculture requires a pulverized particle. This product — commonly known as agstone — is not a fertilizer in a strict sense but a type of soil conditioner. It is used primarily to replenish calcium losses from soils stimulated by the application of commercial fertilizers and to correct soil acidity. Agstone is produced in more than 50 counties by about 120 operators. Last year, quarries in the State produced 3.2 million tons of agstone, of which more than 95 percent was used on Illinois farms. Illinois leads all other states in the manufacture of this limestone product.

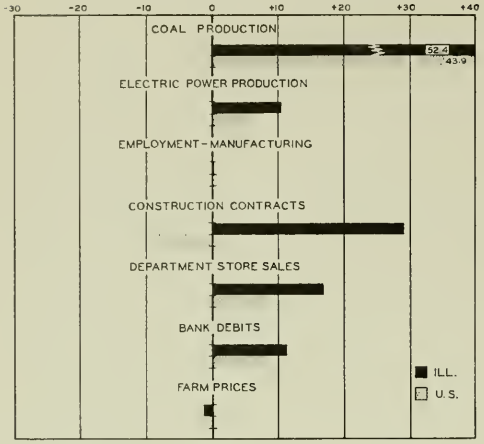
There are many other uses for limestone. It is a major raw material in cement, which is produced by crushing, burning, and grinding a mixture of limestone, clay, and a small amount of iron oxides. In all, an estimated 1.5 million tons of limestone were ground in 1959 by the Illinois portland cement industry. The metallurgical industries also use substantial amounts of Illinois limestone for fluxing and refractory purposes. In 1959, 360,000 tons of Illinois limestone valued at $710,000 were sold to smelters, many of which were located in the Chicago-Gary district. Another 100,000 tons were utilized last year for ballast under Illinois railroad tracks. In addition, limestone is employed in small quantities for the manufacture of such diverse products as sugar, glass, paper, putty, and paint whiting.

Limestone, which is third in importance among Illinois minerals after oil and coal, will continue to be one of the state's most valuable natural resources. There is little possibility of its exhaustion from exploitation. Production of the mineral will depend upon the stability of its principal market — the construction industry — more than any other factor.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes July, 1960, to August, 1960



ILLINOIS BUSINESS INDEXES

Item	Aug. 1960 (1947-49 =100)	Percentage change from July 1960	Percentage change from Aug. 1959
Electric power[1]	264.6	+10.5	+ 4.7
Coal production[2]	84.8	+52.4	+11.0
Employment—manufacturing[3]	98.5	+ 0.1	− 2.6
Weekly earnings—manufacturing[3]	170.0[a]	− 0.8	+ 0.2
Dept. store sales in Chicago[4]	121.0[b]	− 7.6	− 1.6
Consumer prices in Chicago[5]	130.3	− 0.1	+ 1.6
Construction contracts[6]	420.9	+29.1	+13.2
Bank debits[7]	228.5	+11.1	+17.0
Farm prices[8]	81.0	− 1.2	+ 1.2
Life insurance sales (ordinary)[9]	305.2	+12.4	+ 5.0
Petroleum production[10]	124.7	+ 1.8	+ 2.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Data for July, 1960, compared with June, 1960, and July, 1959.
[b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Aug. 1960	Percentage change from July 1960	Percentage change from Aug. 1959
	Annual rate in billion $		
Personal income[1]	407.6[a]	+ 0.1	+ 6.3
Manufacturing[1]			
Sales	361.2[a]	− 1.0	+ 3.1
Inventories	54.9[a, b]	0.0	+ 5.4
New construction activity[1]			
Private residential	24.0[c]	− 1.4	−15.8
Private nonresidential	18.3[c]	+ 1.5	+ 5.9
Total public	19.6[c]	+ 1.7	+ 1.3
Foreign trade[1]			
Merchandise exports	20.4[d]	− 2.2	+15.8
Merchandise imports	13.9[d]	−12.0	− 7.5
Excess of exports	6.5[d]	+28.0	+147.9
Consumer credit outstanding[2]			
Total credit	53.9[b]	+ 0.5	+12.6
Instalment credit	42.0[b]	+ 0.7	+13.3
Business loans[2]	36.2[b]	− 0.8	+21.0
Cash farm income[3]	32.2[d]	+ 9.0	+ 3.1
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	109[a, e]	− 0.9	+ 4.8
Durable manufactures	104[a, e]	− 1.9	+ 6.1
Nondurable manufactures	115[a, e]	− 0.9	+ 1.8
Minerals	98[a, e]	0.0	+ 7.7
Manufacturing employment[4]			
Production workers	99	− 1.1	+ 1.2
Factory worker earnings[4]			
Average hours worked	99	− 0.3	− 2.0
Average hourly earnings	171	− 0.9	+ 3.7
Average weekly earnings	170	− 1.1	+ 1.6
Construction contracts[5]	289	− 8.4	+ 6.8
Department store sales[2]	144[a]	− 3.4	0.0
Consumer price index[4]	127	0.0	+ 0.2
Wholesale prices[4]			
All commodities	119	− 0.4	+ 0.1
Farm products	86	− 2.7	− 0.7
Foods	108	− 0.9	+ 2.0
Other	128	0.0	− 0.2
Farm prices[3]			
Received by farmers	86	− 2.3	− 2.3
Paid by farmers	119	0.0	0.0
Parity ratio	79[f]	− 1.2	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for July, 1960, compared with June, 1960, and July, 1959. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960					1959
	Sept. 24	Sept. 17	Sept. 10	Sept. 3	Aug. 27	Sept. 26
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,351	1,368	1,320	1,288	1,343	1,302
Electric power by utilities...mil. of kw-hr.	14,156	13,903	14,216	14,941	14,453	12,878
Motor vehicles (Wards)...number in thous.	140	107	66	65	63	114
Petroleum (daily avg.)...thous. bbl.	6,877	6,847	6,874	6,824	6,842	6,858
Steel...1947-49 = 100	90	88	81	86	90	21
Freight carloadings...thous. of cars	618	599	481	577	596	587
Department store sales...1947-49 = 100	148	150	130	147	139	145
Commodity prices, wholesale:						
All commodities...1947-49 = 100	119.4	119.4	119.4	119.3	119.4	119.7[a]
Other than farm products and foods...1947-49 = 100	128.2	128.3	128.3	128.4	128.3	128.4[a]
22 commodities...1947-49 = 100	83.6	84.3	84.8	84.7	85.4	85.7
Finance:						
Business loans...mil. of dol.	31,572	31,307	30,933	30,970	31,114	29,376
Failures, industrial and commercial...number	321	305	276	288	279	282

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for September, 1959.

RECENT ECONOMIC CHANGES

Consumer Credit

Consumer instalment credit continued to move upward in August. The rate of expansion, however, has slowed down in recent months (see chart). The net addition during August of $168 million was the smallest advance since the $147 million of November, 1958. Instalment debt outstanding at the end of August reached a record $42 billion, about $4.5 billion more than a year ago.

Most of the net increase in August was in personal instalment loans to customers, which advanced $122 million to $10.8 billion. Outstanding auto credit, the largest category of instalment debt, rose an adjusted $34 million in August, somewhat more than in July but well below the $213 million increase of August, 1959.

Industrial Production

The Federal Reserve Board's index of industrial production declined in August to 109 percent of the 1957 average. Despite a boost in auto output from 111.8 to 115, the over-all August index fell 1 percentage point below July and 2 points below the production high of 111 percent reached in January. A year ago industrial output was 104 percent of the 1957 average.

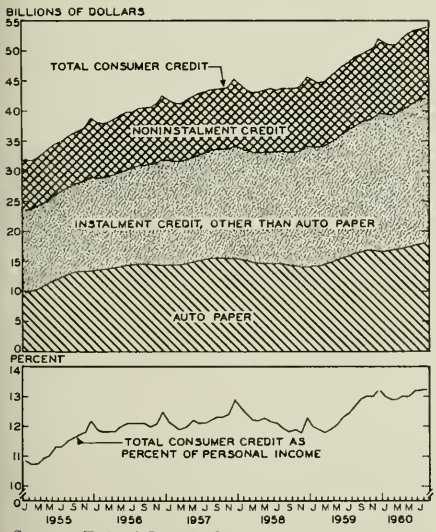
Offsetting the increased production in the auto industry was the continued decline in steel output. The FRB's separate index for iron and steel fell to 79 in August from 80.8 in July and 119.3 last January. Durable goods output, as a whole, dropped from 106 percent of the 1957 average in July to 104 percent in August. The production index for nondurable goods slipped to 115 after attaining a new high of 116 in the preceding month.

Personal Income

Personal income continued to rise in August, but at a much reduced rate. During the month personal income reached an annual rate of $407.6 billion, well above the year-ago rate of $383.3 billion. Although the August figure set a new record, it represented a gain of only $300 million from the adjusted July rate, the smallest month-to-month advance since February.

Almost all of the August advance was accounted for by larger federal, state, and local government payrolls, which rose $500 million from July to $49 billion. Much of this increase reflected the final effects of the federal salary increase in July. In contrast, payrolls in manufacturing industries, especially steel and autos, declined for the third consecutive month, and farm income dropped for the second month.

CONSUMER CREDIT



Source: Federal Reserve Board.

Consumer Prices

The August index of consumer prices remained unchanged from July but was up 1.4 percent from August, 1959. Increases in the prices of apparel, gasoline, and home ownership costs during the month were offset by price reductions for food, autos, and appliances, keeping the index at 126.6 percent of the 1947-49 average.

The decline in food prices was led by substantial reductions for fresh fruits and vegetables during the peak harvest season. Beef, lamb, and poultry prices also fell slightly. Prices for both durable and nondurable house furnishings were cut in an effort to reduce large inventories, while new car prices dropped seasonally as the 1960 model year ended. On the other hand, gasoline prices rose for the third consecutive month, and home ownership costs were generally higher. Apparel prices were up in August for the second straight month.

Construction Contract Awards

Contracts for future construction awarded in August were ahead of year-earlier levels for the first time this year. However, the August gain resulted, to some extent, from a relatively poor showing in August, 1959, when contract awards fell to $3,084 million. This year August awards amounted to $3,295 million, an increase of 7 percent from a year ago, but considerably below the 1960 high of $3,597 million in July.

Most of the year-to-year advance was accounted for by sharp gains in contracts for nonresidential building, up 22 percent to $1,777 million, and heavy engineering projects, up 20 percent to $685 million. These advances more than offset the continued decline in housing contracts during August which fell to $1,433 million, 8 percent below the same month last year.

Employment

Employment fell by 515,000 in September. This was less than the normal seasonal decline of 750,000 as the drop-off in jobs was cushioned by an unexpected increase in the number of employed farm workers.

At the same time unemployment declined more than seasonally, reflecting an unusually heavy number of young people leaving the job market to return to school. In addition, an earlier-than-usual start in new-model auto production helped to reduce the number of jobless by 400,000 in September.

Labor Department data, in thousands of workers, are as follows:

	Sept. 1960	*Aug. 1960*	*Sept. 1959*
Civilian labor force	71,155	72,070	69,577
Employment	67,767	68,282	66,347
Agricultural	6,588	6,454	6,242
Nonagricultural	61,179	61,828	60,105
Unemployment	3,388	3,788	3,230
Seasonally adjusted rate	5.7	5.9	5.6

ECONOMIC PRESSURES IN THE CUBAN SITUATION

JOSEPH D. PHILLIPS, Research Professor

Developments in Cuba since shortly after the Castro government came to power in the first days of 1959 have turned largely upon economic factors. The bones of contention between Cuba and the United States have been economic for the most part, and economic measures have been the principal instruments of policy on both sides. It seems probable that economic forces will largely determine the final outcome.

The Setting

Rarely have the economic relationships between two countries been so conducive to friction as have those between Cuba and the United States. Nominally a sovereign power, Cuba has been until recently an economic dependency of the United States. Although American influence in the Cuban economy began while Cuba was still a colony of Spain, it did not become dominant until after the Spanish-American War.

By 1926, 63 percent of Cuba's sugar came from American-owned mills. This development was accompanied by the expansion of sugar cane cultivation; in a recent year over half of the cultivated land was in sugar. The Cuban economy became increasingly dependent upon sugar, much of it produced for the American market. This monoculture was characterized by large landholdings, a short period of intense activity at harvest time followed by long months of unemployment for large numbers of landless agricultural workers, and a pronounced tendency toward overproduction. Its complement was a heavy dependence upon the United States for foodstuffs and other consumer goods, as well as for capital equipment, a circumstance that was partly the result of lower duties on imports from the United States than from other countries.

But sugar was not the only American sphere of interest in Cuba. In 1956 the United States Department of Commerce reported that "The only foreign investments of importance are those of the United States. American participation exceeds 90 percent in the telephone and electric services, about 50 percent in public service railways, and roughly 40 percent in raw sugar production. The Cuban branches of United States banks are entrusted with almost one-fourth of all bank deposits."

In view of these dominant property interests, it is perhaps not surprising that many Cubans resented their country's dependence on the United States. In some, this feeling was primarily a reflection of national pride; in others, it arose largely from their poverty. In recent years roughly a fourth of the labor force was unemployed, and only a third of the children of school age attended school. The recent revolution and the Castro program reflect in part pressure from large segments of the population for a change in their situation.

Any real change required a reduction in dependence on sugar cultivation, the breaking up of large landholdings, the diversification of agriculture, and the development of a greater industrial base. Inevitably changes of this sort impinged on American interests.

The Diplomacy of Sugar

As every American follower of the headlines knows, much of the recent controversy between Cuba and the United States has centered around our administration's decision, with the concurrence of Congress, to cut off the remainder of Cuba's 1960 sugar quota. An explanation of this action and its effects requires an examination of Cuba's position in the world sugar market and of American sugar policy.

Cuba is the world's largest exporter of sugar. In the past, about half of Cuba's sugar exports were sold in the protected American market, the other half being sold to other countries at the world market price under the International Sugar Agreement. Sales to the United States have been determined by a quota established by our Department of Agriculture according to the several Sugar Acts adopted by Congress.

The quota system was designed to assure domestic producers a favorable price without providing an inducement to uneconomic expansion of cultivation. Each year an over-all quota for sugar sold in the American market has been divided among domestic producers, American island producers, and favored foreign countries, notably Cuba. Most of the time this system has resulted in a higher price for quota sugar than for sugar sold in the world market. In recent years the differential has averaged about 2 cents per pound of raw sugar.

Up to the present, Cuba has not suffered greatly as a result of being denied access to the American sugar market. Large sales to the Soviet Union, China, and other Communist countries have provided an outlet for a significant part of her supply. Although these have been at prices slightly below the world market level, the products obtained in exchange have been favorably priced. Furthermore, Cuba has been able to influence the world market price by setting minimum export prices.

The immediate loss to Cuba, therefore, is the $35 million in premium prices that the cut in her 1960 quota has entailed. However, Cuba stands to lose more if she is shut out of the American sugar market in 1961 (the present act gives the Administration authority only through March of next year); her premium loss in 1961 will exceed $125 million. As for the American consumer, the cut-off of Cuban sugar had the effect, at least temporarily, of increasing the price of sugar and carries the possibility of higher prices in the future.

Oil in the Picture

Oil has been another primary source of contention between the United States and Cuba. Cuba is almost completely dependent upon imported oil for fuel and energy. Nearly all of this oil was processed in recent years in three big refineries owned by Standard Oil Company of New Jersey, Texaco, and Royal Dutch Shell. These companies used oil from their own properties in Venezuela and other Caribbean areas. Payments to these companies were a major drain upon Cuba's dollar earnings.

To reduce dollar payments for oil, Cuba made a trade agreement with the Soviet Union in early 1960 which provided for the exchange of sugar for Soviet oil. Reportedly, the Soviet Union agreed to deliver the oil at about 70 percent of the world market price in exchange for sugar at slightly less than its world market price. The Cuban government demanded that the three foreign oil companies owning the big Cuban refineries process the oil obtained under this agreement, insisting that an earlier Cuban law required this. The oil companies refused, claiming that the law applied only to oil produced in Cuba, and insisted upon using their own oil from Vene-

zuela. In taking this position, the oil companies were motivated by the higher profits to be obtained from refining their own oil and by their opposition to Soviet penetration of their oil markets.

After the oil companies had refused to process the Soviet oil, the Cuban government expropriated the refineries and placed a Mexican petroleum expert in charge of their operation. Jersey Standard retaliated by threatening to boycott any tanker company that carried Russian oil to Cuba. However, the threat came at a time when about a fourth of the world's tanker tonnage was idle, so many tanker companies were under great pressure to take business where they could get it. Furthermore, the Soviet Union could divert some of her own tankers to the Cuban trade, hiring foreign carriers to replace them on other routes. As a consequence, the attempts of the oil companies to prevent the flow of oil to Cuba failed, and Cuban consumers of petroleum products are reported to be adequately supplied.

These incidents illustrate many of the pressures in the Cuban situation — the dependence of the Cuban economy, the vulnerability of American foreign investments to expropriation, the weakness of Cuba's balance of payments situation. They also point up a change in the world oil market as a result of growing Soviet competition and the development of other new sources of supply.

Pressure on the Balance of Payments

The developments in sugar and oil, respectively Cuba's principal export and import, have been most important for Cuba's balance of payments situation. Cuba has had a favorable balance of commodity trade in every postwar year except 1958. However, from 1949 through 1958 deficits in the current account emerged in every year except 1953, because the trade balance was not large enough to offset payments for shipping services, personal remittances, and returns on American investments. These were partly offset by a net inflow of private capital, the remainder being covered by government borrowing. The regional distribution of Cuba's trade and current-account balances has been characterized by large deficits with the United States and surpluses with Great Britain, Europe (except Spain), and the rest of the world.

Cuba's reserves of gold and dollar exchange were greatly reduced in the last years of the Batista regime, in part as a result of transfers of large sums out of the country to their own account by Batista and his henchmen in anticipation of their fall from power. Further reductions occurred in the first year of the new government as a result of large expenditures abroad for Cuba's program of economic development. As noted earlier, the closing of the American market to Cuban sugar puts further pressure on Cuba's reserves.

However, recent developments in Cuba have greatly reduced her need for dollar exchange. Petroleum obtained from the Soviet Union in exchange for sugar replaces petroleum from Venezuela supplied by American companies requiring payment in dollars. Expropriation of American investments cuts off the flow of profit payments to American firms, at least until a settlement is reached regarding compensation, when interest payments on government bonds issued for that purpose might partially offset the reduction in the outflow of profits. Greater self-sufficiency in the production of foodstuffs and other consumer goods may reduce the need for dollars to pay for imports of these items from the United States. Large outlays by rich Cubans for travel abroad, including some undeclared capital exports, will no doubt be reduced through legal restrictions, but this development has been offset by a still greater reduction in American tourist expenditures in Cuba as a result of the tension between the two countries.

Normally a program of industrialization such as the Cuban government has proposed would require large amounts of foreign exchange for the purchase of capital equipment. In the absence of extensive aid from the United States, the Cuban government has turned to the Soviet bloc for aid. A number of contracts for the construction of new industrial plants have been entered into with the Soviet Union and other Communist governments. These are to be financed by long-term credits repayable in sugar and other Cuban exports.

Other Economic Pressures

Other aspects of the peculiar economic relationship that for long existed between Cuba and the United States have contributed to the tension between the two countries. In a country where 20 percent of the land belonged to 114 farms (less than 0.1 percent by number), where 8 percent of the farms had 71 percent of the land, where farms under 25 acres made up 39 percent by number and only 3 percent by acreage, it is not surprising that land reform was a burning issue. A major factor in the success of the Cuban revolution was the support of the peasants and the agricultural wage workers. Commitments by the leadership to a fundamental land reform program were required to secure the support of a peasantry that had been disillusioned by previous revolutions.

Well supplied with grievances and effectively organized for the first time, the peasants of Castro's army have been a strong revolutionary force. They and their kind provided mass support for the agrarian reform law of May 17, 1959, which set an upper limit of 1,000 acres on landholdings (a maximum of 3,300 acres was allowed for certain types of land), called for the expropriation of holdings above this amount with compensation in the form of 20-year bonds at no more than 5 percent, and provided for the distribution of these expropriated acres to the peasants, each of whom was to be given enough to bring his holdings up to 66 acres. (Actually many of the larger units taken over have been operated as agricultural cooperatives.)

These measures have pinched many toes. Wealthy Cuban landowners with many thousands of acres have seen their holdings greatly reduced. American sugar companies lost whole plantations under decrees prohibiting ownership of both sugar mills and sugar lands. The prospect of compensation was dimmed by Castro's announcement that it would be based on valuations of property reported under the Batista regime for tax purposes. Since

UNITED STATES DIRECT INVESTMENTS ABROAD, SELECTED YEARS, 1950-59

(Millions of dollars)

Areas and countries	1950	1957	1958	1959
All areas, total	11,788	25,262	27,255	29,735
Latin American republics, total	4,445	7,434	7,751	8,218
Argentina	356	333	330	361
Brazil	644	835	795	839
Chile	540	666	687	729
Colombia	193	396	383	399
Cuba	642	849	879	955
Mexico	415	739	745	759
Peru	145	383	409	427
Venezuela	993	2,465	2,658	2,808
Others	517	768	865	941

Source: U.S. Department of Commerce.

great efforts had been exerted in most cases to minimize these, many owners felt compensation on this basis to be confiscatory.

As retaliatory actions by Cuba followed retaliatory actions by the United States in subsequent developments, nearly the whole of American investments in Cuba have been taken over. In addition, the United States has seen its exports to Cuba, formerly among the largest to any Latin American country and the principal source of foreign supply for Cuba, dwindle under import restrictions.

However, it is the danger that the Castro program will spread to other Latin American countries that constitutes the greatest economic pressure in the Cuban situation from the standpoint of the United States. The table on page 7 indicates the magnitude of American private direct investments in Latin America. Widespread nationalization of American property in other Latin American countries could result in much greater losses than have been experienced in Cuba.

The outcome of these matters is difficult to foretell. It is possible that the present Cuban government will be overthrown by internal opponents, although this seems unlikely while it commands the mass support that it has now. Although the church is increasingly critical of the regime, it does not seem to have the influence among the rural population that it has in some Latin American countries. Cuba is vulnerable to outside intervention, but it is not another Guatemala. No small body of adventurers could move in successfully so long as the army and the peasant and worker militia are loyal to the government.

The Cuban government's position will no doubt depend upon its success in achieving its goal of reducing the role of sugar production in the Cuban economy. The lower average price for sugar may provide additional inducement for such a shift. The result will partly be determined by other programs designed to reduce her dependence on imports of foodstuffs and manufactured goods.

For the time being in any case, it does not seem likely that the Castro regime will collapse as a result of economic pressures. There seems to be little doubt that it can sell sugar in the world market and to the socialist countries on terms that will keep the economy going during a transitional period in which the program of diversification is being put into effect.

Insurance Muddle

(Continued from page 2)

of repeaters. They are suspicious of fraud; they even catch and bring to punishment some of the worst offenders. Their efforts abate somewhat the tendency of the situation to get out of hand.

They are handicapped, however, by internal conflict, because they have to sell as well as administer the insurance. Agents need the customer's good will and often feel that this requires prompt and even liberal adjustment of claims without too many questions asked. Any company that gets the reputation of being too tough loses clients to its competitors. So each watches the others to keep from being placed at a disadvantage. Fear of public prejudice against insurance companies and fear of large jury awards also lead to paying too much. Lacking the ability to maintain strict standards, there is a tendency to economize on expense in small claims cases by making adjustment mechanical and routine. Many claims are disposed of by telephone. The technique described as "have it fixed and send us the bill" is often deplored but widely used.

The insurance company, in other words, faces a dilemma. It cannot do the job it would like to do in minimizing losses and still achieve the gains it would like to make in number of policyholders. There is, however, a way to salvation, namely, by raising rates. Most seem to be willing to go along with the general watering down of standards of fidelity so long as policies can be sold at rates that cover the excessive losses. The controlling limit is then imposed by the fear that contracts may become unsalable if further increases are put into effect.

No Relief in Sight

Raising rates also runs up against another hurdle in that increases have to be approved by state regulatory agencies. This is almost exclusively a state function and its effects vary considerably from state to state. (The lack of authority for federal regulation has been upheld by the courts. The latter have set aside, for example, orders of the Federal Trade Commission against insurance-company advertising practices which were found to be false, misleading, and deceptive.)

Most state insurance agencies are well aware of what is going on and recognize that current problems cannot be solved merely by increases in rates. They therefore resist requests for increases and often scale them down toward minimum needs. But here, too, a dilemma arises; for they have little or no control over the ultimate increase in costs. Granting the rate increases may defeat the basic objective of providing protection at reasonable cost; but refusing to grant them may bankrupt the companies and destroy protection via another route.

In the case of health insurance, the regulators are reduced to appeals for cooperation and to rather futile threats of withholding participation in insurance plans from offenders. There is hardly any alternative, because the medical profession typically closes ranks when challenged and insists on freedom for its members in determining appropriate treatment and charges. The American Medical Association has spoken out against excesses. A prominent state commissioner nevertheless charges that "the medical profession through state and county societies have done practically nothing in the way of curbing abuses in the use of hospital care."

In the case of automobile insurance, the regulators have tried other pressures, but in some respects they lack the authority and in others they lack the investigative and enforcement resources needed to make prevention of abuses effective. A number of states have turned to merit-rating systems for car drivers, but these leave much to be desired. They depart from the insurance principle, because allocating the costs to those who suffer losses in effect leaves them without protection (except for really large losses) and experience does not indicate that the so-called "clean risks" — namely, those with no record of accidents or convictions within three years — are any less liable to future hazards. Furthermore, these schemes tend to confuse insurance with law enforcement; penalties for traffic violations are not a proper risk for insurance coverage, and blowing up rates as a way of imposing additional penalties detracts from the value of the protection the insurance was intended to provide.

The progressive loss in insurance values may lead the consumer of means to assume at least some of his own risk. If the healthy family should decide to pay its own medical bills and the careful driver to pay any damage he might incur, the position of insurance would worsen by being confined to the poorer risks. But what alternative would then remain for the honest citizen of limited means who can see no other way to protect his savings? Nowhere is the prospect of relief very bright. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Consumer Buying Plans

According to the September, 1960, issue of *Business Record*, consumer buying plans for durable goods were generally down in the second quarter of 1960 compared with the first quarter of 1960 and the second quarter of 1959. A notable exception to this general decline was the rise in new automobile buying intentions, which were higher than in any other quarter since the February, 1958, beginning of the Conference Board's survey of consumer buying plans.

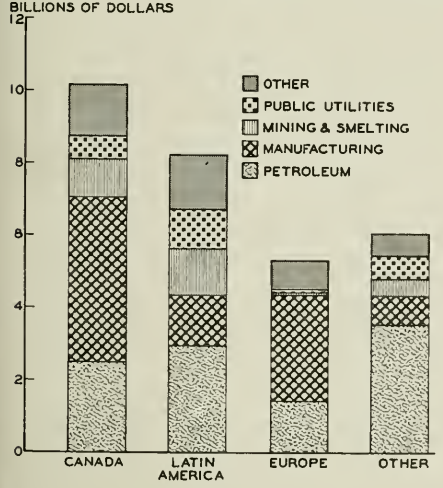
The over-all decline in buying plans in the second quarter of 1960, compared with the year-ago quarter, reflected varying intentions among the four broad income groups. In the second quarter of 1960, the two lowest-income groups, those with annual incomes below $5,000 and those with incomes from $5,000 to $7,499, reduced their buying plans in all of the categories in the survey. In the $7,500 to $10,000 income group, buying plans for television sets rose about 75 percent, and smaller increases were reported for new and used automobiles, dishwashers, and vacuum cleaners in contrast to declines for such items as homes, freezers, and refrigerators. Buying plans of those with annual incomes over $10,000 improved more than those of any other group during the period. Their plans to purchase new automobiles were up 45 percent from the year-ago period.

Area-Pricing for Natural Gas

The Federal Power Commission has instituted a new pricing formula for determining natural gas prices for independent producers. The commission has set gas prices on a producing-area basis, rather than the traditional utility concept of cost-plus-return used in the regulation of interstate gas pipelines. The new standards of price are based on costs and historical pricing patterns for each major producing area. The commission will give quick approval to requests of natural gas producers for price increases within these limits, but producers will have to present a convincing case for any higher prices.

The price guides set by the commission range from 14 cents to 18 cents per 1,000 cubic feet for the initial service rates and 11 cents to 14 cents for additional units of 1,000 cubic feet. The West Virginia area, where gas production is slight in comparison to the Southwest, was the lone exception from the announced pricing formula. No price guides will be established for the southern Louisiana area until an offshore gas rate question is settled in court.

VALUE OF DIRECT INVESTMENT ABROAD, 1959



Source: U.S. Department of Commerce, *Survey of Current Business*, September, 1960, p. 20.

Working Capital

The Securities and Exchange Commission estimates that the net working capital of United States corporations, excluding banks and insurance companies, increased $500 million during the second quarter of this year and amounted to $131 billion on June 30, 1960. This rise represents the smallest gain since the fourth quarter of 1957 and reflects an increase of $1.3 billion in current assets offset partially by an $800 million addition to current liabilities.

During the second quarter of 1960, corporate holdings of cash rose $700 million, and at the same time corporate investment in government securities declined $1.6 billion. The combined holdings of cash and government securities at the end of June were estimated at $56.2 billion. The ratio of these two items to total current liabilities, which is a rough measure of corporate liquidity, was 40 percent at the end of June, down somewhat from the level that has prevailed during the past two years.

In addition to the increase in net working capital during the second quarter of 1960, corporations invested $8.7 billion in plant and equipment and $800 million in other assets. In order to finance this expansion, corporations obtained about $8 billion from internal sources such as depreciation accruals and retained earnings, and the remainder came from external sources consisting of new issues of stock and long-term borrowings.

Business Investments Abroad

The sustained build-up of foreign investment activities of United States companies in recent years has raised the value of their holdings abroad to $30 billion, according to preliminary data released by the Department of Commerce. United States firms added $2.5 billion to their investments in foreign subsidiaries and branches in 1959.

Of the reported value of investment holdings abroad, $23 billion were in mining, manufacturing, and petroleum industries. The petroleum industry investment amounted to $10.4 billion. Holdings in manufacturing were valued at $9.7 billion, of which nearly 50 percent was invested in Canada and about 30 percent in Europe. Of the $2.9 billion investment in the mining and smelting industry, 88 percent was in Western Hemisphere countries.

Canada and the Latin American countries have received $18.4 billion, or 62 percent, of total United States investment abroad. Investments in Canada amounted in 1959 to $10.2 billion, of which 45 percent was in manufacturing and 25 percent in petroleum (see chart). Of the $8.2 billion investment outlay in the Latin American countries, 37 percent was in petroleum enterprises. Investments in manufacturing industries accounted for slightly over half of the $5.3 billion outlay in Europe.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity generally showed improvement in August. The only major indicator with a substantial decline was department store sales in Chicago, which dropped 8 percent. The greatest increases were experienced in coal production and construction contracts, which were up 52 percent and 29 percent respectively from the July level.

Wholesale Trade in Illinois

According to the *1958 Census of Business*, the number of wholesale trade establishments in Illinois increased from 16,500 in 1954 to 17,500 in 1958, a gain of 6 percent. This increase is in contrast to the 15 percent decline in the number of retail establishments reported in the April issue of the *Illinois Business Review*. In 1958, sales of these wholesale establishments amounted to $23.2 billion, an increase of $2.8 billion or 14 percent from 1954.

Of the five types of wholesale trade operations classified by the Census, merchant wholesalers in 1958 accounted for slightly over 11,000 establishments and sales amounting to $8.9 billion. Although manufacturers' sales branches had only 1,700 establishments, their sales of $8.5 billion were second to those of merchant wholesalers. The largest percentage increase in sales was obtained by petroleum bulk plants and terminals, whose shipments rose 33 percent to slightly over $1 billion in 1958. The two remaining types of wholesale operations, merchandise agents and assemblers of farm products, experienced declines in sales of 2 percent and 7 percent respectively during the period.

As would be expected, Cook County is the most prominent wholesale trade area in the State, with over 50 percent of the state's establishments and 80 percent of the state's total sales. Peoria County ranks second in importance in both respects.

Average Weekly Earnings

Average weekly earnings in manufacturing industries in Illinois amounted to $97.90 during the first six months of 1960, compared with $96.05 in the first half of 1959. This increase of $1.85 reflects a gain of $2.77 a week in nondurable goods manufacturing offset by a decrease of 33 cents in average weekly earnings in durable goods production. Workers in the durable goods industries averaged $99.71 a week in the first half of the year, while those in the nondurable goods industries averaged $93.20 a week.

Average weekly earnings vary widely among the different manufacturing industries. In June, 1960, workers in petroleum refining had the highest average weekly earnings, amounting to $117.89, and those in printing, publishing, and allied industries earned $109.58. At the same time, workers in the apparel and finished textile industries earned an average of only $61.84 a week, and those in the leather and leather products industries received an average of $66.82 a week.

City Worker's Family Costs Compared

The August, 1960, issue of the *Monthly Labor Review* presents comparisons of the cost of a city worker's family budget in the autumn of 1959 for New York, Chicago, Los Angeles, Philadelphia, Detroit, Washington, D. C., and 15 other cities. The comparisons of the cost of a city worker's family budget are expressed in indexes and are based on the cost of a representative list of goods and services considered necessary for a family of four to maintain a level of adequate living according to standards prevailing in these cities.

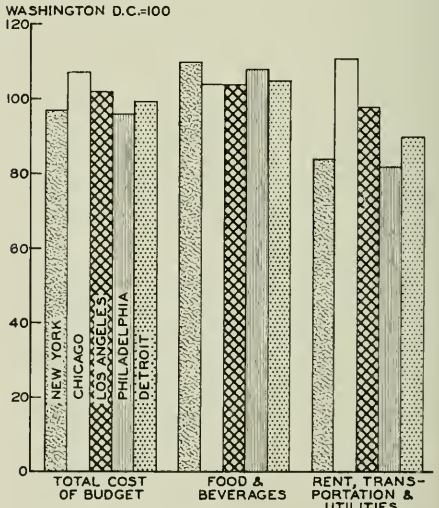
The accompanying chart shows that the cost of a city worker's family budget in Chicago is higher than in any of the other cities. The cost of the total family budget in Chicago is 12 percent higher than in the lowest-cost city. The indexes of the component parts of the total budget show varying degrees of dispersion among the cities. The range of the index for the food and beverages component was the narrowest of all the major components, with the highest-cost city only 6 percent above the lowest. The nonfood components, however, displayed a much wider variability. Rent, transportation, and utility costs in Chicago were 35 percent above those in Philadelphia, 32 percent higher than those in New York, 23 percent more than those in Detroit, 13 percent above those in Los Angeles, and 11 percent higher than those in Washington, D. C.

Prospective Crop Yields

Illinois has a prospective corn crop in 1960 amounting to 652 million bushels, according to the Illinois Cooperative Crop Reporting Service. This output would be exceeded only by the record-breaking 763-million-bushel crop in 1959, and the year would be only the second time that corn production has surpassed 600 million bushels. The total acreage of 10.3 million, the largest since 1907, accounts for this year's near-record production.

The 1960 soybean crop is now estimated at 128 million bushels, an advance of 2 percent from last year. Soybean yield is expected to be 26 bushels per acre, down a half bushel. Prospective oat production is estimated at 97 million bushels, which is 7 percent higher than in 1959. This year's wheat crop is expected to amount to 47 million bushels, as compared with 42 million in 1959.

DIFFERENCES IN THE COST OF A CITY WORKER'S FAMILY BUDGET, AUTUMN, 1959



Source: U.S. Department of Labor, *Monthly Labor Review*, August, 1960, p. 789.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1960

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$36,199[a]	1,246,461[a]	$496,788		$19,974[a]	$15,427[a]
Percentage change from July, 1960	−16.1	+6.7	−9.5	+17	+11.1	+2.6
Percentage change from Aug., 1959	−14.8	+2.8	n.a.	+2	+17.0	+8.1
NORTHERN ILLINOIS						
Chicago	$20,796	908,524	$358,376		$18,459	$13,337
Percentage change from July, 1960	−35.7	+4.7	−10.0	+17	+12.1	+2.7
Percentage change from Aug., 1959	−32.3	+4.7	n.a.	+3	+18.0	+8.4
Aurora	$1,153	n.a.	$ 8,696		$ 84	$ 160
Percentage change from July, 1960	−28.5		−9.9	+8	−5.1	+12.1
Percentage change from Aug., 1959	+88.1		n.a.	0	−0.1	+6.9
Elgin	$ 734	n.a.	$ 5,581		$ 53	$ 118
Percentage change from July, 1960	+84.9		−8.8	n.a.	+0.2	+4.7
Percentage change from Aug., 1959	+62.7		n.a.		−4.2	−3.2
Joliet	$ 409	n.a.	$ 9,720		$ 97	$ 107
Percentage change from July, 1960	−35.6		−12.2	+6	−2.1	+0.1
Percentage change from Aug., 1959	−19.0		n.a.	−5	+9.6	+14.2
Kankakee	$ 116	n.a.	$ 4,701		n.a.	$ 66
Percentage change from July, 1960	−36.6		−11.0	n.a.		+18.9
Percentage change from Aug., 1959	+20.8		n.a.			+22.5
Rock Island-Moline	$4,969	26,742	$10,491		$ 116[b]	$ 199
Percentage change from July, 1960	+179.8	−1.2	−10.7	n.a.	−3.9	+36.0
Percentage change from Aug., 1959	+424.7	−10.6	n.a.		+1.8	+44.8
Rockford	$1,288	49,852	$16,277		$ 203	$ 210
Percentage change from July, 1960	−20.0	+6.1	−7.9	+20[c]	−5.6	+0.5
Percentage change from Aug., 1959	−73.3	−0.4	n.a.	−8[c]	+2.8	−1.0
CENTRAL ILLINOIS						
Bloomington	$ 216	10,668	$ 5,064		$ 84	$ 105
Percentage change from July, 1960	−42.4	+11.1	−3.0	n.a.	−0.8	+9.9
Percentage change from Aug., 1959	−40.8	+7.9	n.a.		+14.7	+17.8
Champaign-Urbana	$ 644	15,705	$ 7,260		$ 79	$ 112
Percentage change from July, 1960	−42.1	+4.3	−3.0	n.a.	−6.6	+3.8
Percentage change from Aug., 1959	+78.9	+0.9	n.a.		+6.7	+28.3
Danville	$ 289	15,887	$ 5,657		$ 55	$ 62
Percentage change from July, 1960	+38.9	+14.2	−3.2	+17	+1.3	−25.4
Percentage change from Aug., 1959	+78.4	+1.5	n.a.	−6	+16.4	−13.6
Decatur	$ 658	36,206	$10,343		$ 116	$ 125
Percentage change from July, 1960	+477.2	+9.7	−6.1	+17[c]	−0.8	+12.7
Percentage change from Aug., 1959	+19.4	−5.3	n.a.	+3[c]	+1.1	+4.4
Galesburg	$ 139	9,776	$ 4,192		n.a.	$ 48
Percentage change from July, 1960	−68.3	+20.9	−7.8	n.a.		−1.7
Percentage change from Aug., 1959	−51.7	−2.6	n.a.			+14.1
Peoria	$ 742	65,908[c]	$15,269		$ 232	$ 284
Percentage change from July, 1960	+0.1	+24.4	−17.3	+25	−0.7	+3.2
Percentage change from Aug., 1959	+45.2	−4.1	n.a.	−5	+2.3	+0.9
Quincy	$ 236	n.a.	$ 4,891		$ 53	$ 73
Percentage change from July, 1960	+24.9		−8.2	+29	+10.8	−6.4
Percentage change from Aug., 1959	+32.6		n.a.	−2	+16.5	+18.3
Springfield	$1,377	48,403	$12,286		$ 146	$ 255
Percentage change from July, 1960	+57.4	+11.4	−1.6	+17[c]	+10.2	−5.3
Percentage change from Aug., 1959	+2.2	+0.3	n.a.	0[c]	+11.0	−16.5
SOUTHERN ILLINOIS						
East St. Louis	$ 170	20,124	$ 8,581		$ 150	$ 80
Percentage change from July, 1960	+104.8	+16.0	−5.7	n.a.	+6.8	−30.0
Percentage change from Aug., 1959	+13.3	+11.2	n.a.		+9.1	+18.5
Alton	$ 383	25,190	$ 4,862		$ 47	$ 40
Percentage change from July, 1960	+50.2	+15.4	−4.8	n.a.	+3.1	+13.6
Percentage change from Aug., 1959	+142.5	−10.7	n.a.		+4.8	+23.2
Belleville	$1,880	13,477	$ 4,540		n.a.	$ 46
Percentage change from July, 1960	+921.7	+14.4	−9.1	n.a.		−4.7
Percentage change from Aug., 1959	+631.5	+6.3	n.a.			+2.6

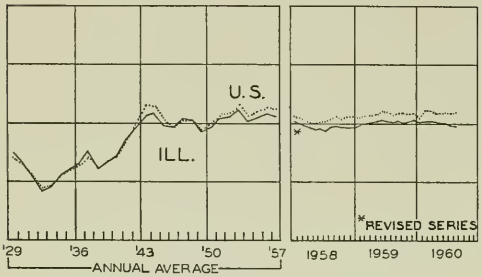
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for July, 1960. Comparisons relate to June, 1960, and July, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending August 19, 1960, and August 21, 1959.

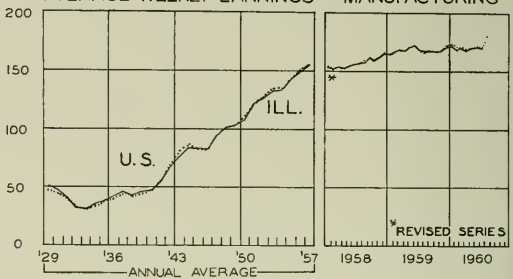
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

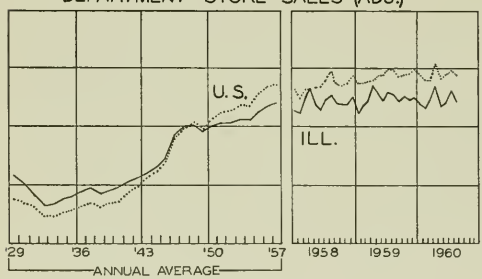
EMPLOYMENT MANUFACTURING



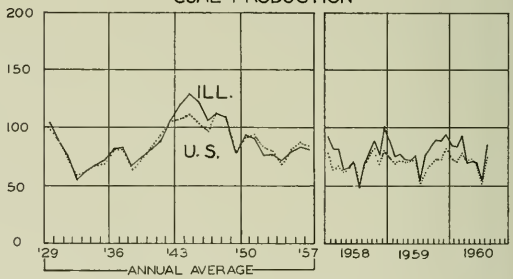
AVERAGE WEEKLY EARNINGS — MANUFACTURING



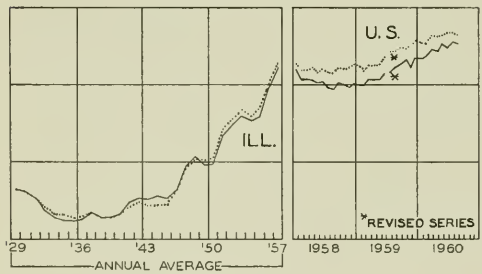
DEPARTMENT STORE SALES (ADJ.)



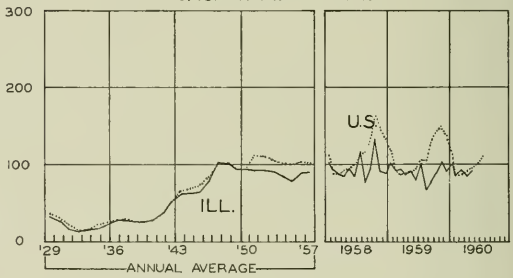
COAL PRODUCTION



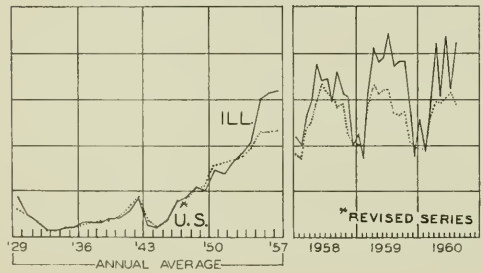
BUSINESS LOANS



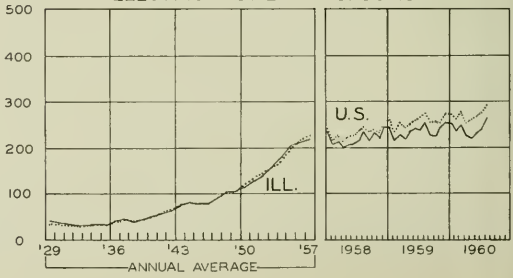
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN OCTOBER

Business activity in October showed little change from September. Automobile output rose about 50 percent as production of new models got fully under way, but this was largely a seasonal increase. The steel industry continued to operate at little more than half its capacity. The index of industrial production remained unchanged at 107 percent of the 1957 average. The seasonally adjusted rate of unemployment rose from 5.7 percent to 6.4 percent as the number out of work increased 190,000 to 3.6 million.

More encouraging was the comeback in retail sales, which moved up 2 percent from the September low. Department store sales rose 6 percentage points to 150 (1947-49 = 100), and automobile sales set a new record for October as dealers worked to get rid of their large stocks of 1960 models.

Construction Almost Steady

The value of new construction put in place in October amounted to $5.1 billion. This was 3 percent less than in September, but after adjustment for seasonal influences the total was down only slightly. Private construction accounted for $3.5 billion of the total. It was off 2 percent from the September pace, and the seasonally adjusted annual rate showed almost the same decline. Private nonfarm residential building was down 5 percent from the preceding month and 15 percent from October, 1959. On the other hand, private nonresidential building expenditures rose 3 percent from September and 16 percent from October a year ago.

Public expenditures on new construction amounted to $1.6 billion in October, a less-than-seasonal decline of 4 percent from September and a gain of 12 percent from the year-earlier month.

Bank Reserves Raised

In the last week of October the Federal Reserve Board broadened its open-market operations, raising its holdings of government securities by $689 million, the largest increase since January, 1951. For the first time in more than two years federal obligations other than Treasury bills were included in the Fed's purchases. This shift in policy was intended to make more reserves available for expansion of credit by member banks without putting too much pressure on the bill market.

In addition, the Fed took steps on October 26 that will raise reserves of member banks about $1.3 billion near the end of November. First, the historic difference between the reserve requirements of central reserve city banks and reserve city banks will be eliminated by reducing the former from 17½ percent to 16½ percent. Second, banks will be allowed to count all the coin and currency they hold in their vaults as part of their legal reserves. Offsetting to some extent the effect of these measures, which were designed to give effect to legislation adopted by Congress last year, reserve requirements of country banks will be increased from 11 percent to 12 percent.

The Fed expects about $1 billion of the increase in reserves to be drawn out of the banks by business and consumers in the form of currency for their holiday needs. Thus the net increase in bank reserves in the immediate future is estimated at only $300 million, but it goes a step beyond the requirements of holiday trade to combat the current slack in business activity.

Further Decline in Sales

Total sales by manufacturers and distributors showed a further decline in September — for the fifth consecutive month. The drop in seasonally adjusted dollar volume amounted to $500 million, lowering the total to $60.2 billion. About $200 million of the reduction in sales occurred in manufacturing, bringing the total for the month to $29.9 billion. Declines of $100 million each were experienced by wholesalers and retailers.

Inventories of manufacturing and trade firms had a total book value of $93.2 billion at the end of September after seasonal adjustment, down $100 million from August. An increase of $100 million in trade inventories, primarily in new car stocks of dealers, partly offset a reduction of $200 million in manufacturing inventories.

Loans to Consumers Continue Up

Consumer instalment debt, seasonally adjusted, moved up $192 million in September, somewhat more than in August but less than in any other month since November, 1958. The increase raised the total of this type of debt outstanding to $42.2 billion, 10 percent more than a year ago. Automobile paper accounted for only $29 million of the latest increase, about the same gain as in the two preceding months but well below earlier months of the year. Other consumer goods paper rose $40 million after a small decline in August.

Noninstalment debt amounted to $12 billion at the end of September, up slightly from the end of July. All short- and intermediate-term consumer debt totaled $54.1 billion, equal to 15 percent of disposable income.

EUROPE'S NEW ECONOMIC MATURITY · · · By Karel Holbik · · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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Some Financial Straws

Reflecting current confusion in the financial world are a number of propositions which have gained wide support if not general acceptance:

(1) That profit margins are being squeezed so that corporate profits are subnormal.

(2) That prices of common stocks are low.

(3) That speculation in gold is based on fears of the inflationary trends likely to be spurred by new government spending programs.

(4) That the Federal Reserve quickly shifted to an easy money policy.

(5) That higher government spending and easy money will soon push business ahead to new highs.

All these propositions have the common quality of explaining away as "temporary" some undesirable aspects of the current situation. Some brief comments on each are in order:

Profits. Although corporate profits have fallen back from the peaks reached in the second quarter of 1959 and the first quarter of 1960, they are still about as high as in any other period. Those extreme highs were based on excessive inventory accumulation and could not be considered "normal." The consequent cutback in volume accounts for the decline in profits, but given the lower level of sales, profits have held up very well, indicating that margins over direct costs have been well maintained. Intensified competition, partly from abroad, has no doubt put some prices under pressure, but wholesale prices in general and average hourly wage rates in manufacturing have held steady since the beginning of the year.

Over a longer period, of say five years, profits have not expanded in line with sales and assets. This is due primarily to rising indirect costs in two forms — depreciation charges and expansion of research and other staff functions. To correct the impression obtained from profits alone, some analysts prefer to use cash flow as the criterion of success, and they have found that this total of profits plus depreciation charges has substantially maintained its share of sales value. It appears that the problem of profits arises because industry has adopted policies of developing new products and processes and of gaining quick turnover of fixed capital through accelerated depreciation. These policies can show success profitwise only when growth in sales is achieved. If sales remain stable, profits will continue to fall with the build-up in indirect costs; if sales decline, the fall will accelerate.

Stock Prices. The decline in the stock market from last year's highs is about in line with the decline in profits. Although in a highly variable market some prices may now be considered low, the average overvaluation present last year has been only partly corrected. Historical standards indicate that prices are still high, not only in relation to profits but also in relation to cash flow.

The half-decade drive of stock prices to last year's highs did not derive solely from business progress. It reflected a shift in speculative sentiment based on concepts of growth and inflation. The economy was supposed to grow unceasingly at a rate that would keep resources fully employed; and the consequent upward pressure on business costs was supposed to ensure a "creeping," continuous fall in the value of money. These expectations have not yet been dissipated. But the recession is aggravating the disappointments of early 1960, and there can be no guarantee of the growth needed to restore optimism for another two years at least. If glowing expectations shatter under the impact of prolonged disappointment, stock prices could go much lower.

Gold Flows. The prices of gold shares made new highs while other stocks were falling to recent lows. If there were elements of irrationality in this, they were overshadowed by those in the free market for gold itself. The price of gold was bid up to over $40 an ounce, or to roughly the highest price anyone has suggested as a probable stopping point for devaluation. To pay the full amount of a possible gain on the chance of getting it later appears to be just plain foolishness.

The continuing cause behind this speculation in gold is our adverse balance of payments. By itself, this is a slow-acting pressure and could not properly be considered the cause of near-term change. What made the speculative fever acute was growing awareness of the recession, which made it seem likely that our government would have to act. Since some countercyclical measures, such as easy money, would tend to aggravate the gold outflow, it seemed that action on gold might be imminent. In other words, fear of deflation rather than of inflation was behind the speculation in gold. But neither devaluation nor easy money offers any sure cure for deflation.

Monetary Policy. The Fed has already taken a series of steps that might be regarded as easy-money measures. Some of these came early enough so that there could hardly have been any anti-deflationary intent. Action on interest rates was halting. It followed rather than led market action and displayed a consistent regard for keeping interest rates high. The latest actions on the eve of the election seem more definitely anti-deflationary. It is not necessary to attribute denial of this intent to fear of influencing the election. Nobody is more convinced of the importance of its announcements than the Fed itself, and it has no wish to add to recession jitters.

Actually, the Fed has been trying to straddle the issue. It is not ready to give up the hope that it will soon be fighting inflation again. It remains ready to retrieve its position on that side just after the turn of the year if business conditions should then warrant. This it could do by relatively moderate sales of bills — again only of a "seasonal" sort. Furthermore, it is concerned to keep short-term rates as high as possible in order to avoid aggravating the outflow of gold. A severe loss of gold would bring Congress into the picture, with results that could hardly be foretold.

Federal Deficit. As a first order of business in 1961, the new Administration will undoubtedly direct all possi-

(Continued on page 8)

ELECTRIC POWER PRODUCTION

Electricity is the most essential and most extensively used form of power in the United States today. Its steady development during the present century has been a major factor in the expansion of the nation's industrial capacity as well as in the improvement of national living standards. The dominance of this country in electric power production can be seen by the fact that with only 6 percent of the world population, the United States produces 38 percent of total electric output.

Last year, the United States electric utility industry, which has established new production records in each of thirteen consecutive years, produced 707 billion kilowatt-hours, more than 62 billion over the 1958 level. When railway and other industrial generation is included, the total output in this country reached 790 billion kilowatt-hours, more than twice the 1950 output.

Production varies markedly among the states but tends to be roughly correlated with the concentration of industry. The heaviest area of production occurs in a cluster of Midwestern states which includes Illinois, Wisconsin, Ohio, Michigan, and Indiana. Nearly 23 percent of the total power volume is produced in this region, which also ranks first in industrial output. Other centers of production derive in part from the availability of water power, and these tend to result in concentrations of industries that are the heaviest users of power.

Illinois Power

Illinois, which ranks sixth in total power production, generated a record 44 billion kilowatt-hours last year. Of this amount, only 6 percent was produced by industrial users. The 42.5 billion kilowatt-hours produced by Illinois utilities was surpassed only by utilities in California, New York, and Ohio.

About 97 percent of the total Illinois utility power production is generated by eight large privately owned companies. The largest of these firms is the Commonwealth Edison Company, which produced nearly two-thirds of the state's total utility electric supply in 1959. The largest downstate utility, Illinois Power Company, ranks second, and is followed in size by the Central Illinois Public Service Company, Electric Energy Incorporated, Central Illinois Light Company, Union Electric Company, Central Illinois Electric and Gas Company, and Iowa-Illinois Gas and Electric Company. The 1959 sales of Commonwealth Edison Company amounted to $445 million; those of the other seven companies averaged $37 million.

Besides production by private utilities, about 2 percent of total utility output was generated by the eleven municipal plants in Illinois. In addition, cooperatives produced another one-fourth of 1 percent, or 100 million kilowatt-hours; this, however, was only a sixth of total co-op distribution, the rest of their power being purchased wholesale from private companies. There were 27 farm cooperatives in the State last year serving a total of more than 141,000 farm customers.

Electric power is sold to more than 3 million Illinois consumers. Numerically, the 2.5 million residential users are easily the largest group of consumers. In terms of energy consumption, however, large industrial firms are more important; some 23,000 bought more than 13 billion kilowatt-hours, or 38 percent of the utility total, in 1959. Residential customers consumed 21 percent, government agencies and municipalities 20 percent, commercial enterprises 18 percent, and all others 3 percent.

Sources of Energy

Electric power is derived from a number of sources, but the most common one during the twentieth century has been coal, followed by water power, oil, and gas. Coal is used chiefly for steam-turbine generating plants, water power for hydroelectric plants, and oil and gas for internal combustion engines. Although coal accounts for nearly 66 percent of all fuel consumption by electric utilities, its total share has shrunk from 82 percent since 1945, despite a 96 percent increase in coal used.

Illinois utilities, which have an installed generating capacity of nearly 9 million kilowatts, depend almost entirely on steam generators for power. About 98 percent of the Illinois utility capacity is in this form, compared with 69 percent nationally. This preference for steam as a "prime mover" derives from the relatively low cost and ready availability of coal from Illinois mines.

Although fuel reserves nationally and in Illinois should be able to supply utilities for many decades, the development of atomic power has provided another possible source of widespread electric energy. Sixteen nuclear power plants having a total capacity of 1.4 million kilowatts are either in operation or have been authorized for construction.

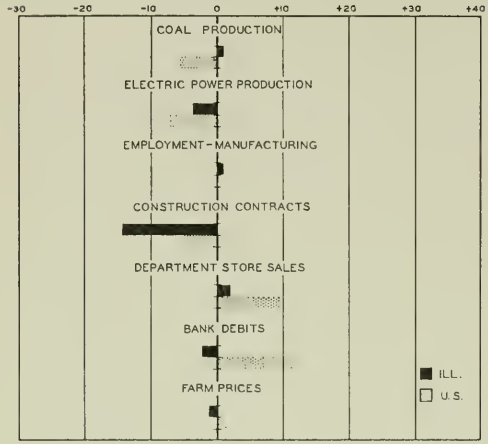
Illinois is playing an important role in nuclear power development. Research has been carried on at Argonne National Laboratory by the University of Chicago for some time. In addition, the world's largest single nuclear-power reactor was put into operation near Morris during the past summer. This plant, Commonwealth Edison's Dresden Nuclear power station, will supply information about the "boiling water process," in which steam is produced in the reactor core, then forced into turbines where 180,000 kilowatts of electricity are generated. Power from the turbines is distributed through conventional transmission systems just as is electricity from any other plant. Although 65 tons of uranium fuel will supply the reactor for 3½ years compared with 2 million tons of coal for the same period, uranium is still the more costly producer of electric power.

Since 1946, national production has increased 220 percent to 707 million kilowatt-hours, installed capacity 213 percent to 157 million kilowatts, and the number of utility customers 59 percent to 49 million. Furthermore, this dynamic increase, effected by the development of a larger array of appliances and machinery for both the home and industry, is not expected to decline in coming years. In fact, the nation's utility industry, according to the Federal Power Commission, must double present output if it is to meet the sharply rising demands anticipated by 1970.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes August, 1960, to September, 1960



ILLINOIS BUSINESS INDEXES

Item	Sept. 1960 (1947-49 =100)	Percentage change from Aug. 1960	Percentage change from Sept. 1959
Electric power[1]	254.5	− 3.8	+11.7
Coal production[2]	85.6	+ 1.0	− 4.2
Employment—manufacturing[3]	99.4	+ 1.0	− 3.0
Weekly earnings—manufacturing[3]	169.5[a]	− 0.2	+ 0.9
Dept. store sales in Chicago[4]	121.0[b]	0.0	− 1.6
Consumer prices in Chicago[5]	130.4	+ 0.1	+ 0.9
Construction contracts[6]	361.1	−14.2	+ 0.4
Bank debits[7]	223.5	− 2.2	+14.7
Farm prices[8]	80.0	− 1.2	+ 1.3
Life insurance sales (ordinary)[9]	279.1	− 8.6	− 2.0
Petroleum production[10]	119.8	− 3.9	+ 1.9

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Data for August, 1960, compared with July, 1960, and August, 1959. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Sept. 1960	Percentage change from Aug. 1960	Percentage change from Sept. 1959
	Annual rate in billion $		
Personal income[1]	408.4[a]	+ 0.0	+ 6.3
Manufacturing[1]			
Sales	358.8[a]	− 0.7	+ 0.7
Inventories	54.8[a, b]	− 0.4	+ 5.6
New construction activity[1]			
Private residential	28.0[c]	− 2.1	0.0
Private nonresidential	14.8[c]	+ 3.5	−11.6
Total public	20.3[c]	+ 3.0	+ 9.2
Foreign trade[1]			
Merchandise exports	19.4[d]	− 5.1	+15.5
Merchandise imports	14.7[d]	+ 6.3	+ 3.3
Excess of exports	4.6[d]	−29.3	+85.3
Consumer credit outstanding[2]			
Total credit	54.1[b]	+ 0.4	+11.8
Instalment credit	42.1[b]	+ 0.3	+12.4
Business loans[2]	36.7[b]	+ 1.5	+ 6.8
Cash farm income[3]	35.9[d]	+11.3	+ 8.4
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	107[a, e]	− 0.9	+ 3.9
Durable manufactures	102[a, e]	− 1.9	+ 5.2
Nondurable manufactures	114[a, e]	− 0.9	+ 0.9
Minerals	96[a, e]	− 1.0	+ 5.5
Manufacturing employment[4]			
Production workers	98	− 0.3	− 0.2
Factory worker earnings[4]			
Average hours worked	99	− 0.5	− 1.7
Average hourly earnings	172	+ 0.4	+ 3.2
Average weekly earnings	171	− 0.1	+ 1.4
Construction contracts[5]	274	− 5.3	+ 2.0
Department store sales[2]	144[a]	+ 0.7	0.0
Consumer price index[4]	127	+ 0.2	+ 1.3
Wholesale prices[4]			
All commodities	119	0.0	− 0.4
Farm products	88	+ 1.0	+ 9.7
Foods	108	+ 0.3	+ 0.3
Other	128	− 0.2	− 0.3
Farm prices[3]			
Received by farmers	87	+ 1.2	− 2.2
Paid by farmers	119	0.0	+ 0.8
Parity ratio	80[f]	+ 1.3	− 1.2

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for August, 1960, compared with July, 1960, and August, 1959. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960					1959
	Oct. 29	Oct. 22	Oct. 15	Oct. 8	Oct. 1	Oct. 31
Production:						
Bituminous coal (daily avg.)...thous. of short tons..	1,332	1,423	1,421	1,353	1,376	1,322
Electric power by utilities...mil. of kw-hr.....	13,883	13,805	13,736	13,725	13,779	12,978
Motor vehicles (Wards)...number in thous....	168	163	163	159	156	118
Petroleum (daily avg.)...thous. bbl.....	6,821	6,771	6,824	6,803	6,849	6,887
Steel...1947-49 = 100.....	90	92	92	88	90	22
Freight carloadings...thous. of cars.....	621	637	653	646	632	588
Department store sales...1947-49 = 100.....	149	157	156	155	149	145
Commodity prices, wholesale:						
All commodities...1947-49 = 100.....	119.0	119.0	119.2	119.5	119.5	119.1[a]
Other than farm products and foods..1947-49 = 100.....	127.6	127.6	127.7	128.1	128.2	128.4[a]
22 commodities...1947-49 = 100.....	83.4	83.4	83.8	83.7	83.6	86.9
Finance:						
Business loans...mil. of dol.....	31,435	31,549	31,521	31,395	31,541	29,516
Failures, industrial and commercial...number.....	331	270	326	343	304	273

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for October, 1959.

RECENT ECONOMIC CHANGES

Corporate Securities

New security offerings by United States corporations totaled $2.5 billion during the third quarter, the same as in the previous period but a half billion above the same quarter last year. The usual seasonal decline in total offerings was offset by increased financing by the communications industry and by sales and consumer finance companies.

These third quarter results brought total new issues in the first nine months of this year to $7.4 billion, compared with $7.0 billion in the comparable period a year ago. Offerings by communication companies totaled $650 million in the first nine months of this year, compared with $250 million last year. Personal credit firms have issued $1.2 billion in securities thus far in 1960 as against $700 million in the same 1959 period. Partially offsetting these increases were reductions in the issues of manufacturing, non-rail transportation, and electric and gas utility companies.

Of the total proceeds from new issues during the first nine months of the year, $4.1 billion was to be used for plant and equipment investment; $2.4 billion for working capital purposes; $215 million for retirement of securities; and $471 million for other purposes, principally repayment of long-term bank debt and acquisition of securities to effect mergers. The balance of gross proceeds was used to cover expenses of flotation.

Railroad Earnings

Earnings of the nation's Class 1 railroads, hurt by strikes and the continued decline in freight traffic, dropped $5 million in September, and were well below the earnings for September, 1959 and 1958. The Association of American Railroads estimated net income for the month at $25 million, compared with $29 million a year ago and $73 million in September, 1958.

In the first nine months of this year, earnings were estimated at $303 million. This was down sharply from $393 million last year and $353 million in the same period two years ago.

The report also stated that total operating revenues for the first nine months of this year totaled about $7.2 billion, a decline of 2.4 percent from $7.4 billion in the January-September period of 1959. Operating expenses fell only 1.4 percent, from $5.8 billion last year to $5.7 billion in 1960.

Wholesale Prices

Primary market prices, on the average, remained unchanged during September, following a sizable decline in the previous month. The wholesale price index for September stood at 119.2 percent of the 1947-49 average, the same as in August, and 0.4 percent below September, 1959.

The stability in the Labor Department's index of wholesale prices in September resulted from opposite movements in the prices of nonagricultural commodities on the one hand, and prices for farm products and processed foods on the other. The price index for the agricultural-related products increased from 97.4 in August to 98.0 in September. This was exactly offset by a decline in industrial prices from 128.2 to 128.0 during the month.

The small year-to-year decrease in the over-all price index between September, 1959, and September, 1960, resulted not only from lower prices for some industrial commodities but also from a 1.6 percent decline in the prices for farm products. The major reductions among farm products were in prices of cattle and fresh vegetables. Industrial commodities which contributed to the general price decrease over the year were softwood lumber, electrical machinery, motor vehicles, iron and steel scrap, and leather products.

Gross National Product

The seasonally adjusted rate of gross national product fell to $503.0 billion in the third quarter, according to preliminary estimates made by the President's Council of Economic Advisers. The third period rate represented a decline of $2.0 billion in the value of the nation's output of goods and services from the second quarter record high of $505.0 billion. After adjustment for price changes, the decrease was even greater; in terms of 1959 prices, GNP fell from $497.4 billion in the spring quarter to $494.1 billion in the July-September period.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1960*	*2nd Qtr. 1960*	*3rd Qtr. 1959*
Gross national product	503.0	505.0	481.4
Personal consumption	328.5	329.0	316.0
Durable goods	42.5	44.5	44.0
Nondurable goods	153.0	153.5	148.0
Services	133.0	130.9	124.1
Domestic investment	70.5	75.5	67.5
New construction	40.5	40.7	41.1
Producers' durable equipment	30.0	29.5	26.5
Change in business inventories	.0	5.3	−.1
Nonfarm inventories only	−.3	5.0	−.5
Foreign investment	3.5	2.0	−.2
Government purchases	100.5	98.6	98.1
INCOME AND SAVINGS			
National income	n.a.	419.4	399.4
Personal income	408.0	404.2	384.8
Disposable personal income	357.5	354.1	338.5
Personal saving	29.0	25.2	22.5

* Preliminary estimates by Council of Economic Advisers.

The reduction in GNP was accounted for by declines in consumer spending for both durable and nondurable goods, coupled with a halt in the accumulation of business inventories. The cuts in durable and nondurable goods spending more than offset an increase in expenditures for consumer services, with the result that personal consumption expenditures fell for the first time in two years.

At the same time, business inventory accumulation, which reached annual rates of $11.4 billion in the first quarter and $5.3 billion during the second period, came to an end during the July-September period. In other areas of private investment, spending for producers' durable equipment rose somewhat, whereas new construction continued to drop.

The declines in personal consumption and domestic investment were only partly offset by increased government outlays and a gain in net exports during the period.

Housing Vacancies

The latest report by the Census Bureau shows that the vacancy rate of the nation's rental units continued to rise in the third quarter. During the period the number of units vacant and available for rent increased to 7.6 percent of all rental units from 7.3 percent in the sec-

(Continued on page 8)

EUROPE'S NEW ECONOMIC MATURITY

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After fourteen to fifteen years of adjustments and some unprecedented efforts — partly regionally organized — to prove its viability, Western Europe has emerged with a vigorous economy. The fact that its maturity has been regained should benefit not only the region but also other areas of the world — particularly the underdeveloped ones. Many are interested in seeing how West European nations will pass on to the less fortunate countries what they themselves received from America in connection with the Economic Recovery Program.

One is justified in expecting that certain West European nations will cooperate in the solution of the problems tackled by the economically backward countries. And, indeed, the stronger states in the region appear to be prepared to grant the kind of assistance that is called for — investment funds and goods. If their action succeeds, the whole trading world will move closer to the ideals of unobstructed international division of labor, multilateralism, and world-wide economic cohesion.

Basis of Maturity

The regained economic maturity rests first of all on the progressive expansion and impressive stability which have been achieved. The scope of economic expansion is demonstrated by continuous increases in the regional gross national product, which rose by 28 percent between 1953 and 1958. (The GNP of the United States went up by 15 percent.) In West Germany, where progress has been most spectacular, the increase was as high as 47 percent. Similarly, West European industrial production gained by 48 percent. The corresponding figures for the United States and Germany are 15 percent and 70 percent respectively.

Contributions to this economic growth have been made particularly by public works projects, private consumption, and exports. Consumption reached high levels, expanding 25 percent between 1953 and 1959. This expansion was facilitated in some countries such as the United Kingdom, France, Holland, and Germany by the use of consumer credit on a large scale. For instance, in the United Kingdom, there was an increase in consumer credit outstanding of 74 percent between the first quarter of 1958 and the third quarter of 1959.

As to the influence of exports on regional economic recovery, the statistics presented in Table 1 suggest its magnitude. France, whose exports were stimulated by successful devaluation of the franc and by President de Gaulle's monetary reforms, may be considered a good recent example of the boon of intra-European cooperation: it appears that, to a considerable extent, French exports have risen in response to German imports from France. (There is no exaggeration in the statement that the West German economic "miracle" has brushed off on a few other economies.)

TABLE 1. EXPORTS FROM OEEC MEMBER COUNTRIES
(In billions of US dollars)

Year	Intra-OEEC trade	To North America	To USA	To other countries	Total
1953.....	14.2	2.8	2.1	10.9	27.9
1959.....	26.5	5.8	5.0	17.6	50.0
Increase 1953-59.....	86.6%	108%	140%	61.5%	78.5%

It is significant that the aforementioned high levels of economic activity have been accompanied, or more precisely, complemented by relative price stability and balanced international accounts. Price stability has been based on gains in productivity, on some unused productive capacity, and on the absence of union pressure for higher wages. Those observers who now fear that this economic harmony will not be sustained in the future believe that, before too long, full employment conditions will give rise to pressures in the markets for productive resources with the almost predictable consequence — higher prices. The market for skilled labor, for instance, is growing so tight that it threatens to limit economic growth.

Monetary as well as fiscal policies have played an active part in the economic revival. The former have been generally relaxed and have permitted considerable narrowing of interest rates. Expansion in Germany and Great Britain in particular has had the benefit of easier money conditions. In other countries (e.g. France and Spain) accumulated inflationary pressures were siphoned off by stabilization programs.

Fiscal policies, too, should be credited with the stimulus they have given to both consumer and producer spending. The measures employed have, in most instances, consisted of tax reductions, investment allowances, subsidies, and expanding public works.

Improvement in Reserves and Trade

Equilibria in West European trade balances have found expression in unprecedented gains of foreign reserves, in which about 70 percent of the trade surpluses were invested over the 1953-59 period. In 1959, West European reserves equaled $20.5 billion, of which Germany held $5 billion, Italy $3 billion, the United Kingdom $2.8 billion, Switzerland $2 billion, and France $1.7 billion. Whereas in 1952 aggregate reserves amounted only to $9.4 billion, by 1960 they have become equal to West Europe's share in world trade and thus are high enough to raise the question whether their accumulation is excessive and should be stopped. Some economists see in them a source of funds investable in poorer areas.

The foreign exchange assets have already had a favorable impact on trade. They have induced most West European countries to pursue liberal commercial policies, from which the United States has also benefited. With minor exceptions, unfavorable balances of payments no longer hamper West European countries from expanding internally as well as externally. In fact, without the prevailing equilibria in international accounts, neither the European Economic Community (Common Market) nor the European Free Trade Association (both of which are commented on below) would have been practicable.

The economic progress just highlighted has been responsible for further elimination of quantitative import restrictions (especially those carried out in the framework of OEEC "liberalization") and has permitted new tariff concessions, as well as resumption of convertibility for nonresidents. Discrimination against dollar imports in the form of quotas has substantially decreased. The stronger balance-of-payments positions of some West European nations have led to capital exports, governmental as well as private. Among the former there are

subscriptions to the International Monetary Fund, loans to the World Bank, and repayments of European Payments Union debts.

Over the period 1953-59 the value of both aggregate West European imports and intra-regional imports increased by 71 percent and 89 percent, respectively. It is noteworthy that Germany alone accounted for about 50 percent of the intra-regional trade increase. Commoditywise the recent trade expansion has been characterized by sizable exchanges of manufactured goods among which consumer goods, including automobiles, and chemicals have loomed large.

Total imports from the United States, in contrast to exports, have declined since the record value of $5.2 billion in 1957. In 1959, imports were on the level of only $3.6 billion (annual rate). The reduction may be explained by cuts in purchases of raw materials and fuel, including such commodities as cotton, coal, iron and steel, and oil. The decrease in demand for them was caused by internal conditions, of which lower coal consumption in some instances and disappearance of iron and steel shortages in others are illustrative. On the other hand, imports of American manufactured goods have been increasing steadily, rising 53 percent between 1953 and 1959.

This trend is an indication that the United States has maintained its competitive position in the West European market. The competitive urge of Continental manufacturers is easy to verify right here in this country, where European sales promotion has been quite successful, but it seems clear that price differentials based on lower European wage rates have been only of secondary importance. If liberal trading continues to be adhered to on both sides of the Atlantic, the years to come may very well show whether the system of "laissez-faire" in international trade is suited to a world in which the pursuit of welfare policies is a primary governmental responsibility. Thus far, no structural changes have taken place in American trade with the Continent. The forces which have produced the recent divergent trade flows have largely been of a cyclical or temporary nature.

Moves Toward Economic Integration

Historically, Europe has been divided along several different lines. It still is, but the present "split" between the Common Market "Six" and the "Outer Seven" is in many respects unique. It has been brought about by the endeavor, shared throughout the region, to promote higher standards of living by means of economic integration in general and freer trade channels in particular. To the extent that the return to liberalism in commercial and financial relations among the West European countries is organically related to the new economic maturity described above, the "split" itself may be considered a by-product of regained prosperity. This contention should not detract, however, from the fact that the present division is not only an economic but also a political question.

The European Economic Community (EEC), also referred to as the Common Market or the "Six," is a project participated in by Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands. It is based on the Rome Treaty of 1957 and began its operation on January 1, 1959, relying, to a considerable degree, on the experience gained in the Schuman Plan (European Coal and Steel Community), the first supranational organization. The European Free Trade Association (EFTA), or the "Outer Seven," was established in 1959. Its members are Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom. The total EEC population approaches 170 million, and that of EFTA states equals 90 million. The GNP of the former group aggregates $150 billion; of the latter, $85 billion. In 1959, the "Six" accounted for 17.5 percent of all the foreign trade of the Western world (compared with America's 16.9 percent), which makes the EEC the largest foreign trade entity in the world.

The EEC and EFTA states are highly interdependent economically. In 1959 trade among EEC countries amounted to $8.2 billion, while that between EEC and EFTA countries totaled $9.3 billion. Table 2 also brings out their interdependence by showing how much each exports to others in these groups. However, these data do not bring out the economic rivalries existing between the two groups of countries.

To explain, however briefly, the existing, and apparently irreconcilable, EEC-EFTA disagreement as to the methods best suited for the liberalization of the West European economy, one must refer to the constitutions of the two organizations—the Rome and Stockholm Treaties. The EEC is a customs union with common external tariff and commercial policies toward the rest of the world (including the two economic giants, the U.S. and the U.S.S.R.). But most of its members wish to establish common standards in many other policies, such as those concerning agriculture, transportation, taxes, cartels and other business combinations. The ultimate objective of the Community is political integration ("United States of Europe") to be prepared via economic fusion.

The EFTA has much more modest goals and integration aspirations. It does not seek more than a loose commercial cooperation without the permanence which is fundamental to the EEC. EFTA's members are free to pursue independent commercial policies toward third countries and do not intend to harmonize their economic policies in the interest of a future federation. They shy away from what the EEC has plunged into — reduction of national sovereignty of individual states.

At present, each of the two groups is in the process of removing trade barriers (customs duties and import quotas). The process as planned by both organizations is a gradual and protracted one, but calls for the same rates of reduction of existing trade impediments. The EEC countries agreed in the Rome Treaty to reduce their tariffs as they applied to other member countries in a series of steps — by a tenth in 1959, and by additional tenths of the original level in 1960, 1962, 1963, 1965, 1966, and so on, with the aim of achieving complete elimination by 1970. (The EEC Council of Ministers subsequently modified this schedule to speed up the process in the early years.) The EFTA adopted a similar plan, with the six industrial

TABLE 2. DISTRIBUTION OF INTRA-EUROPEAN EXPORTS

(Percentage of total)

	Exports to EEC	Exports to EFTA
EEC countries:		
Belgium-Luxembourg	45	16
France	22	13
West Germany	27	27
Italy	24	22
Holland	42	25
EFTA countries:		
Austria	50	10
Denmark	32	40
Norway	27	37
Portugal	25	17
Sweden	31	35
Switzerland	39	16
United Kingdom	13	10

member countries committed to a schedule of reductions identical to that of EEC under the Rome Treaty but with Portugal permitted a slower process of tariff reductions.

With respect to nonmember countries the EEC countries propose to adopt a common tariff in three stages. EFTA countries also contemplate reductions of tariffs applying to nonmember countries. In both cases, these reductions are contingent on negotiations to take place in 1961 among countries of the still broader international group participating in the General Agreement on Tariffs and Trade.

It is hoped that in the course of the next ten years progress toward West European unity will be made not only on the economic and political fronts, but in the indispensable "integration psychology" as well. This psychology should render compromises more feasible than they are now. Some observers consider Europe's division in spirit more serious than its economic division. They assert that business decisions are being made on the assumption that the carrying out of the time-tables laid down in the Rome and Stockholm Treaties will result in ever increasing discrimination between the two groups in the years to come — which would doubtless be a depressing prospect.

The United States could assist the EEC-EFTA *rapprochement* by lending support to those international programs (those of the GATT, for instance) which seek *world-wide* reduction of trade and payments discrimination. Preferential trade arrangements in Europe can hardly be to America's advantage.

Some Financial Straws

(Continued from page 2)

ble efforts toward reversing the current downturn. The federal accounts for this fiscal year appear likely to turn up a small deficit without any additional action on expenditures and tax rates. Even if the recession is mild, the deficit will probably expand sharply in fiscal 1961, as it did in fiscal 1959 following the recession of 1958.

One of the most highly standardized fallacies being bandied about today is the offhand identification of deficits and inflation. There is no direct and immediate relation of this kind. On the other hand, deficits do occur automatically in periods of deflation as a result of falling tax receipts. This cushions the decline, like any of the other built-in stabilizers, but by itself cannot push the economy back up. What is needed is a positive contribution in the form of increased expenditures, either direct or by way of reductions in tax rates.

When undertaken, an increase in federal expenditures has no more effect on the economy than equivalent private expenditures (more likely less) and tax reductions are generally less effective than equivalent increases in expenditures. Whether such measures will bring about recovery depends entirely on their magnitude. Unless they are large enough to offset continuing declines in private spending, the pace of activity will continue to fall. Compensatory action of this kind requires legislation and is typically slow. There is no way of predicting that it will assure an upswing in 1961 or even in 1962.

What seems clear is that each of these propositions has partial validity in referring to facts of the current situation. As interpretations, however, they merely assume the conclusions they are supposed to establish. In each case, the outcome depends on the future course of business, so that the implicit predictions cannot be taken for granted. VLB

Recent Economic Changes

(Continued from page 5)

ond quarter of 1960 and 6.6 percent in the July-September period a year ago.

Rental vacancy rates were up in all four sections of the country included in the agency's report with the exception of the West. The largest advance occurred in the South where the vacancy rate reached 8.9 percent of available units in the third quarter, compared with 8.3 percent in the preceding quarter. In the North Central region the proportion of rental units vacant rose from 7.5 percent to 8.0 percent. A smaller increase occurred in the Northeastern section of the country, where the rental vacancy rate advanced to 4.6 percent. In the West the rate fell from 10.6 percent in the second quarter to 10.2 percent in the third period.

The average vacancy rate on home-owner units available for sale was unchanged during the third quarter at 1.2 percent.

Unemployment

A contraseasonal rise in unemployment pushed the total number of jobless in October to 3.6 million. The 191,000 increase in unemployment resulted mainly from cuts in manufacturing employment, particularly in the steel and electronics industries. Normally, the number of jobless would be expected to decline by about 200,000 during the month. As a result, the seasonally adjusted rate of unemployment jumped to over 6 percent of the labor force, the highest rate since December, 1958.

At the same time, employment, which normally shows an increase of about 400,000 for the month, declined by 277,000 in October to 67.5 million.

Labor Department data, in thousands of workers, are as follows:

	Oct. 1960	*Sept. 1960*	*Oct. 1959*
Civilian labor force	71,069	71,155	70,103
Employment	67,490	67,767	66,831
Agricultural	6,247	6,588	6,124
Nonagricultural	61,244	61,179	60,707
Unemployment	3,579	3,388	3,272
Seasonally adjusted rate	6.4	5.7	6.0

Machine Tools

Net new orders for metal-cutting tools fell sharply in September, following an upward spurt in the previous month. According to the monthly estimate of the National Machine Tool Builders' Association, orders for cutting-type tools in September amounted to $42.5 million, compared with $47.8 million in August and $47.7 million in September, 1959. The decline of 11 percent brought September orders down near the average monthly level for this year of $42.3 million.

As has frequently been the case this year, the main support for orders came from foreign buyers during the month. Cutting-tool orders from overseas showed a 42.6 percent increase, from $11.5 million in August to $16.4 million in September. A year ago foreign purchasers placed orders totaling only $7.8 million. So far this year, foreign cutting-tool orders have amounted to $109.2 million, or 28.4 percent of total orders, compared with $41.8 million, or 11 percent of total orders, in the first nine months of 1959. Net new orders from United States buyers accounted for all of the September decline. Domestic orders during the month fell to an estimated $26.1 million, down 28.2 percent from $36.3 million in August and 34.8 percent from $39.9 million in September last year.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Voting in Presidential Elections

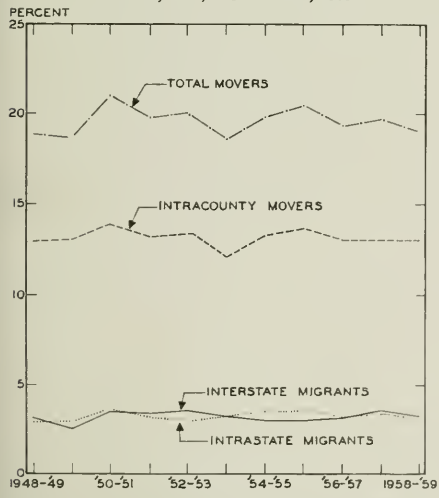
According to estimates released by the Bureau of the Census, about 107 million civilians were old enough to vote in the November, 1960, presidential election. Of this number, almost 68 million cast their votes for presidential electors of the United States, or approximately 63 percent of those of voting age. This preliminary figure compares with 62 million votes cast for presidential electors and 60.4 percent of those of voting age in 1956. The proportion of the civilian population of voting age represented by the total votes cast for United States presidential electors since 1920 has ranged from 43.6 percent in that year to 1960's record high.

About 400,000 civilian residents of Alaska and Hawaii were eligible to vote in a presidential election for the first time. In addition, 8.4 million civilians in the other 48 states have reached voting age since the 1956 election. The total includes the civilian population 21 years old and over for all states and the civilian population 18 years of age and over in Georgia and Kentucky, 19 to 21 years of age in Alaska, and 20 and over in Hawaii, where persons of these ages are permitted by law to vote.

Mobility of Population

As a result of an annual mobility sample survey conducted by the Bureau of the Census, it is estimated that about 33 million persons, or 19.2 percent of the civilian population one year old and over, moved within the United States between April, 1958, and April, 1959. Living in the same house throughout this period were 80.3 percent, and 0.5 percent had moved from outside the continental United States. Of those who moved within the United States, 68 percent changed residences within the same county, 16.5 percent moved across county lines within the state, and 15.5 percent moved between states. The accompanying chart shows that these percentages have fluctuated very little in the past ten years.

MOVERS BY TYPE OF MOBILITY
APRIL, 1948, TO APRIL, 1959



Source: U.S. Bureau of the Census, *Current Population Reports, Population Characteristics,* Series P-20, No. 104, p. 1.

In contrast to previous survey results, the mobility rate for the South during the year ending April, 1959, was about as high as that of the West. The mobility rate for the West amounted to 24.1 percent, compared with 23.0 percent in the South, 18.0 percent in the North Central area, and 13.4 percent in the Northeast. Both the West and Northeast regions experienced a slowdown in the rate of mobility from the previous period. The mobility rates for both the South and North Central regions were about the same as in the 1957-58 period.

Foreign Trade

Data released by the Department of Commerce indicate that for the first eight months of 1960 United States merchandise exports totaled $13.6 billion, an increase of 19 percent from the same period in 1959. However, monthly shipments of goods fell from $1.8 billion in April, 1960, to $1.6 billion in August, 1960. The decline in exports since spring was owing partly to a fall of 82 percent in raw cotton shipments. There were also sizable declines in exports of machinery, grains, and automobiles (including parts and accessories). On the other hand, exports of tobacco and iron and steel products increased 122 percent and 29 percent respectively over April, 1960.

In the first eight months of the year, merchandise imports amounted to $10 billion, about 2 percent higher than for the comparable period of 1959. Imports totaled $1.2 billion in August, 1960, 6 percent above July's figure but still below the monthly average for the year. Most major classes of commodity imports have been relatively stable during the year, but imports of foreign cars have fallen by about 50 percent since spring.

The national merchandise export surplus averaged about $460 million in July and August of 1960, and this rate is about the same as the monthly average of the first half of the year. The export surplus averaged only $198 million a month for the first eight months of 1959.

Intercity Trucking

According to the American Trucking Association, the volume of intercity freight hauled by truck during the second quarter of 1960 amounted to 91 million tons. This figure was exceeded only by the record-breaking 93 million tons in the second quarter of 1959.

General freight carriers, accounting for almost half of the total tonnage, reported a decrease of 4 percent. Liquid petroleum carriers, the second largest group (25 percent of total tonnage), showed a rise of 3 percent over the second quarter of 1959. Motor vehicle carriers showed the largest percentage increase, with a rise of 6 percent. Carriers of heavy machinery and building materials experienced drops of 15 percent and 11 percent respectively.

Five of the nine geographical regions registered gains over the second quarter of 1959, resulting in all-time highs for each of these five regions. Carriers in the Rocky Mountain region reported the largest tonnage increase, with a gain of 8 percent. Northwestern operators increased their tonnage 5 percent, while the loads of Southern carriers advanced 4 percent, those of Southwestern haulers rose 2 percent, and those of Mid-Atlantic operators gained 1 percent.

LOCAL ILLINOIS DEVELOPMENTS

In September the major indexes of Illinois business generally turned down from August. Construction contracts dropped 14 percent, life insurance sales fell 9 percent, and petroleum output declined 4 percent.

Most of the state indexes were above year-earlier figures, with construction contracts and electric power experiencing the largest gains, 15 percent and 12 percent respectively. However, coal production, manufacturing employment, life insurance sales, and seasonally adjusted department store sales in Chicago were down.

Changes in Bank Debits

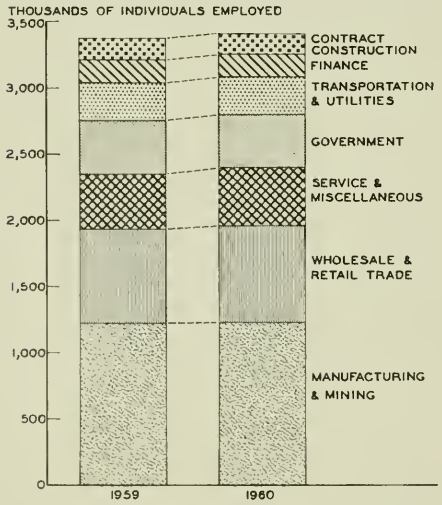
Monthly average bank debits of fifteen major Illinois cities totaled $19 billion in the first six months of 1960, an increase of 8 percent from the corresponding period in 1959. These results were dominated by Chicago, which accounts for about 90 percent of the total bank debits of the fifteen cities. Of the other cities, those located in the northern portion of the State recorded the greatest gains. Aurora and Rockford experienced increases of 12 percent and 9 percent respectively, the highest percentage increases recorded during the period. The only cities reporting declines in bank debits during the period were Peoria (4 percent), East St. Louis (2 percent), and Springfield (1 percent). Bloomington, Decatur, and Danville showed relatively little change from the first six months of 1959.

State Finances in Illinois

In 1959 the general revenue of the state government of Illinois amounted to $104 per capita, according to the Bureau of the Census report, *State Government Finances in 1959*. The average for the nation as a whole was $139 per capita. General revenue per capita ranged from a high of $295 in Wyoming to a low of $90 in New Jersey. About $25 of the Illinois revenue per capita came from the federal government; state taxes accounted for $73, of which about 60 percent came from the retailers' occupation tax and motor fuel sales tax. Charges and miscellaneous general revenue brought in $6 per capita.

By borrowing to supplement revenues, the state government was able to spend $124 per capita in 1959. The average for all states was $148 per capita. Some $28 per capita was expended on education, with state institutions of higher education receiving $12 per capita and the remainder going for support of local education. These latter figures are each below the corresponding national average and appreciably below the per capita expenditures for education in such states as Delaware, Alaska, and New Mexico. Outlays for highways in Illinois amounted to $47 per capita, compared with an average of $43 per capita for all states in the country. Per capita expenditures for public welfare and health and hospitals in the State were roughly the same as the average for all states, amounting to $17 and $15 respectively.

DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT, FIRST HALF, 1959 AND 1960



Source: Illinois State Employment Service and Division of Unemployment.

Cattle on Feed

Illinois ranked fourth among the states in the number of cattle on feed as of October 1, 1960, being exceeded only by Iowa, California, and Nebraska. Farmers in Illinois had 360,000 head of cattle on grain feed for market, or 12 percent less than the 409,000 head on feed a year earlier and 24 percent less than the number on feed July 1, 1960. In the 26 major cattle feeding states of the nation, the number of cattle on feed (including calves) as of October 1, 1960, was up 1 percent from a year ago but down 9 percent from July 1, 1960.

Marketing of grain-fed cattle from Illinois farms during the third quarter of 1960 totaled 239,000 head, 3 percent more than in the same period a year ago. The total of 223,000 head of cattle placed on feed during the quarter was 13 percent less than during the same months of 1959. It was reported that farmers intended to market about 70 percent of their cattle on feed during the fourth quarter of 1960 and the remainder at a later date.

Illinois Nonagricultural Employment

Total nonagricultural employment in Illinois during the first six months of 1960 averaged 3.4 million, an increase of 42,000 over the same period a year ago. However, employment in the months of May and June fell below the level of the corresponding months of 1959.

In the first half of 1960, employment in mining and petroleum experienced the greatest percentage change of any major sector, with a decline of 4.5 percent from the same period a year ago. The only other major sector to decline during the period was finance, insurance, and real estate, which fell very slightly. Employment in manufacturing industries increased 0.7 percent, reflecting a gain of 1.6 percent in the durable goods manufacturing sector partly offset by a 0.7 percent decrease in nondurable goods production. Between the first six months of 1959 and 1960, increases of 2 percent or more were recorded for contract construction, government, and service and miscellaneous industries.

The accompanying chart shows that these changes resulted in no substantial change in the percentage distribution of employment by industries between the first halves of 1959 and 1960. Manufacturing continued to employ about 35 percent of the workers. The share of wholesale and retail trade remained at 21 percent, while service and miscellaneous industries and government held at 12 percent each.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1960

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$65,666[a]	1,327,625[a]	$524,606[a]		$19,533[a]	$17,197[a]
Percentage change from	Aug., 1960	+81.4	+5.4	+5.6	+2	−2.2	+11.5
	Sept., 1959	+36.4	+5.1	+4.5	−2	+14.7	+7.7
NORTHERN ILLINOIS							
Chicago		$55,218	961,922	$378,359		$18,030	$15,094
Percentage change from	Aug., 1960	+165.5	+5.9	+5.6	+3	−2.3	+13.2
	Sept., 1959	+62.2	+6.1	+5.3	−1	+16.1	+7.6
Aurora		$ 686	n.a.	$ 9,009		$ 83	$ 158
Percentage change from	Aug., 1960	−40.5		+3.6	+2	−1.2	−1.0
	Sept., 1959	−23.9		+6.4	−1	+0.5	+9.6
Elgin		$ 624	n.a.	$ 6,082		$ 51	$ 112
Percentage change from	Aug., 1960	−15.0		+9.0	n.a.	−2.6	−5.4
	Sept., 1959	+11.0		+4.6		+3.1	+28.8
Joliet		$ 300	n.a.	$10,329		$ 98	$ 103
Percentage change from	Aug., 1960	−26.7		+6.3	+9	+0.4	−4.0
	Sept., 1959	−65.7		+2.9	−5	+9.1	−0.3
Kankakee		$ 102	n.a.	$ 5,126		n.a.	$ 80
Percentage change from	Aug., 1960	−12.1		+9.0	n.a.		+22.3
	Sept., 1959	−61.4		+6.3			+37.2
Rock Island-Moline		$2,036	29,765	$10,541		$ 113[b]	$ 139
Percentage change from	Aug., 1960	−59.0	+11.3	+0.5	n.a.	−2.9	−30.1
	Sept., 1959	+3.0	+10.6	−13.8		−2.2	−19.7
Rockford		$ 990	53,918	$16,873		$ 205	$ 203
Percentage change from	Aug., 1960	−23.1	+8.2	+3.7	+2[c]	+0.8	−3.2
	Sept., 1959	−28.3	+1.1	+1.9	+3[c]	+4.4	−3.3
CENTRAL ILLINOIS							
Bloomington		$ 612	11,469	$ 5,495		$ 85	$ 109
Percentage change from	Aug., 1960	+183.3	+7.5	+8.5	n.a.	+1.3	+3.4
	Sept., 1959	+63.2	+18.5	+8.7		+6.2	−1.1
Champaign-Urbana		$ 405	16,330	$ 7,525		$ 79	$ 127
Percentage change from	Aug., 1960	−37.1	+4.0	+3.6	n.a.	+0.0	+13.9
	Sept., 1959	−38.9	+1.3	+13.4		−7.8	+15.6
Danville		$ 500	16,006	$ 6,210		$ 54	$ 72
Percentage change from	Aug., 1960	+73.0	+0.7	+9.8	−8	−2.9	+14.7
	Sept., 1959	+86.6	+2.7	+7.1	−6	+0.9	+8.0
Decatur		$ 589	37,900	$11,109		$ 121	$ 123
Percentage change from	Aug., 1960	−10.5	+4.7	+7.4	−2[c]	+4.0	−1.8
	Sept., 1959	+41.2	−6.1	+4.6	−6[c]	−4.1	+6.6
Galesburg		$ 223	10,130	$ 4,463		n.a.	$ 47
Percentage change from	Aug., 1960	+60.4	+3.6	+6.5	n.a.		−3.2
	Sept., 1959	−91.9	−6.3	+0.8			+8.8
Peoria		$ 932	66,350[c]	$16,424		$ 226	$ 306
Percentage change from	Aug., 1960	+25.6	+0.7	+7.6	−3	−2.7	+8.0
	Sept., 1959	+19.5	−3.3	−1.8	−6	−7.6	+18.3
Quincy		$ 109	15,321	$ 5,326		$ 52	$ 70
Percentage change from	Aug., 1960	−53.8	+12.5	+8.9	−4	−2.4	−3.8
	Sept., 1959	−46.8	+13.9	+4.9	+2	+8.2	−1.4
Springfield		$1,163	48,840	$13,255		$ 149	$ 299
Percentage change from	Aug., 1960	−15.5	+0.9	+7.9	−3[c]	+2.4	+17.5
	Sept., 1959	−49.4	+10.8	+4.5	−1[c]	+0.3	+23.6
SOUTHERN ILLINOIS							
East St. Louis		$ 285	20,664	$ 8,745		$ 143	$ 71
Percentage change from	Aug., 1960	+67.6	+2.7	+1.9	n.a.	−4.7	−11.6
	Sept., 1959	+519.6	+14.7	−1.6		+1.5	−0.4
Alton		$ 791	24,738	$ 5,053		$ 46	$ 37
Percentage change from	Aug., 1960	+106.5	−1.8	+3.9	n.a.	−3.0	−8.6
	Sept., 1959	+593.9	−1.0	+4.8		−5.7	+6.5
Belleville		$ 101	14,273	$ 4,683		n.a.	$ 47
Percentage change from	Aug., 1960	−94.6	+5.9	+3.2	n.a.		+2.0
	Sept., 1959	−56.8	+1.1	+9.6			+7.4

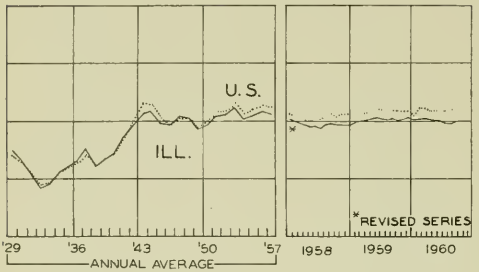
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for August, 1960. Comparisons relate to July, 1960, and August, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending September 16, 1960, and September 18, 1959.

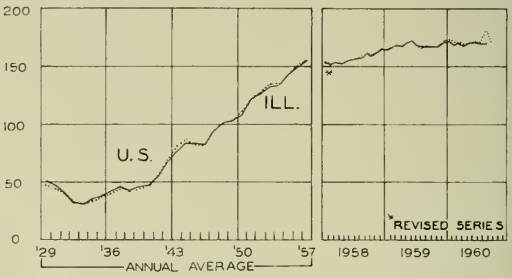
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

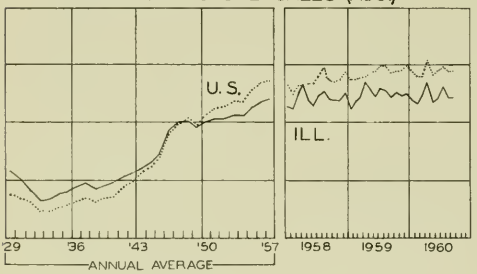
EMPLOYMENT MANUFACTURING



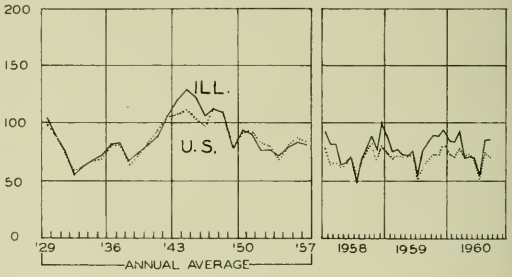
AVERAGE WEEKLY EARNINGS — MANUFACTURING



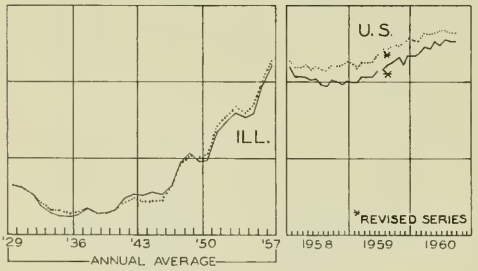
DEPARTMENT STORE SALES (ADJ.)



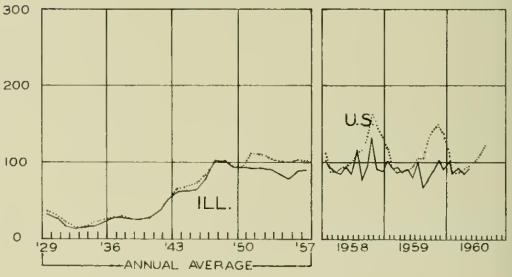
COAL PRODUCTION



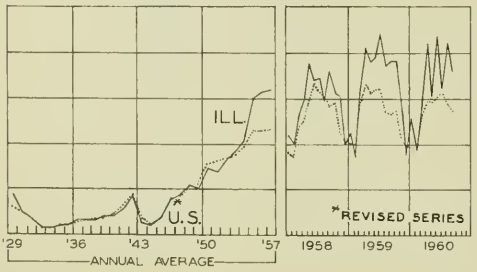
BUSINESS LOANS



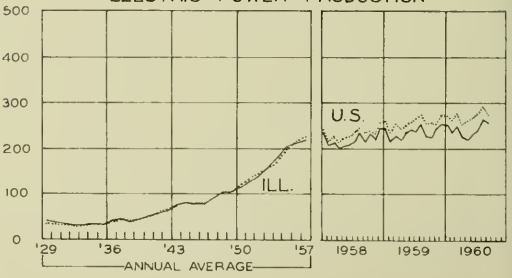
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME XVII | DECEMBER, 1960 | NUMBER 11

HIGHLIGHTS OF BUSINESS IN NOVEMBER

The economy was subject to mixed movements in November that left the general level of business activity down somewhat from October. Steel production declined further, and automobile output fell contraseasonally. Paper, paperboard, and lumber production were all down in November, as was bituminous coal output. The index of industrial production dropped from 107 to 105 (1957 = 100).

Sales of automobiles, although down a little from the very high level of October, provided perhaps the brightest spot in the business picture. The 529,000 units of American-made cars sold domestically equaled the previous November high set in 1955. Even when allowance is made for the large number of 1960 models sold at sizable discounts and for continued record inventories, November sales were very impressive. Department store sales were less impressive, however, the adjusted index falling from 150 (1947-49 = 100) in October to 144 in November.

Decline in Capital Expenditures

Business firms have revised downward their estimates of investment in new plant and equipment during the latter part of this year and have scheduled a further reduction for the first quarter of 1961.

The present estimates place total plant and equipment expenditures for 1960 at $35.7 billion; this is $700 million under the estimate reported three months ago. Capital outlays of business are now expected to amount to a seasonally adjusted annual rate of $35.6 billion in the last quarter of 1960 and $34.9 billion in the first quarter of 1961. Actual outlays reached a peak annual rate for 1960 of $36.3 billion in the second quarter. (See table, page 5.)

Construction Edges Up

Preliminary estimates put the value of new construction put in place in November at $4.8 billion. Although this was 5 percent less than October's total, it represented a gain of 2 percent over November, 1959. The seasonally adjusted annual rate for this November amounted to $55.3 billion, up $500 million from October, with nearly all the increase coming in public construction.

Private construction outlays were down 3 percent from the preceding month to $3.4 billion, but the seasonally adjusted annual rate for this category increased a little. Nonfarm residential building showed slightly less than the usual decline from October, and nonresidential building expanded a little. Only public utility construction experienced a greater-than-seasonal reduction. Public construction expenditures were off 10 percent from the preceding month, but the seasonally adjusted annual rate was up 3 percent.

With total expenditures on new construction in the first eleven months of 1960 amounting to $50.7 billion, federal officials expect that the total for the year may reach $55.1 billion. They forecast a rise of 4 percent to a record $57.3 billion in 1961, surpassing the 1959 peak of $56.2 billion. This estimate assumes that the national output of goods and services will remain at about 1960 levels, with larger outlays at all levels of government.

Inventories Cut

Inventories of manufacturing and trade firms were reduced $400 million in October to $92.7 billion on a seasonally adjusted basis. All of this reduction could be attributed to a decrease in stocks held by durable goods manufacturers, which fell from $31.8 billion at the end of September to $31.4 billion at the end of October. A decrease of $100 million in retail inventories was offset by a rise of like amount in wholesale stocks of nondurables.

Despite decreases in total stocks amounting to $700 million between August 1 and October 31, inventories were still $4.4 billion above the year-ago total. On the other hand, sales by manufacturing and trade firms in October, 1960, were down $400 million from the year-earlier month.

New orders received by manufacturers dropped $1.1 billion to $29.3 billion. The decline centered in the durable goods group. The backlog of unfilled orders was down $5.0 billion from October, 1959, to $46.5 billion.

Credit Expansion Slows

The smallest increase in consumer instalment debt in the past two years added a seasonally adjusted $130 million to the total outstanding at the end of October, raising the latter to $42.2 billion. Additional debt arising from the purchase of automobiles accounted for $54 million of the increase, somewhat more than the monthly rise in the third quarter but only about one-third as much as in the second quarter. Personal loans outstanding expanded $59 million. Other types of instalment debt increased only slightly in October.

FULL EMPLOYMENT VS. PRICE STABILITY · · · · By Paul Wells · · · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

Prosperity on Trial

A year ago it was pointed out here that "the only significant differences among current forecasts concern the period beyond the middle of 1960." This year the consensus extends further: the really significant differences lie beyond the end of 1961.

The current crop of forecasts for 1961 show remarkable agreement on a pattern for the year. Although there are substantial differences in views as to precise timing and probable magnitude of changes, the recession now under way is supposed to end in the first half of 1961 and be followed by a new recovery.

The Early Stages of Recession

The reason for near-term unanimity is a common appraisal of inventory changes. The cycle is currently running its downward course, and when the pressure to liquidate eases, at least partial recovery should occur. This looks like such a good bet that hardly anybody wants to play the off chance.

At election time a widely quoted quip suggested that "It's a queer recession!" Production and employment had been holding fairly close to the peaks; personal income and consumer prices had been steadily rising to new highs; and some advocates of anti-inflation policy held unemployment of close to 6 percent to be "tolerable."

Difficulties of interpretation have added to the confusion arising from the disappointment of high hopes for 1960. Key indicators like new orders and construction contracts rose in October. Although Washington was denying the existence of a recession, it was moving as fast as possible to speed up use of available funds; and no one could tell how much the rise in orders and contracts had been a response to this temporary stimulus. Auto sales also spurted, with the early introduction of 1961 models and the need to clear away large stocks of 1960 models; but there was no way to know how much the spurt might be borrowing from the future.

The most important of the questions raised by current statistics arises from inconsistent movements in inventories, production, and consumption. From the first to the third quarter, the gap between production and consumption indexes held steady but inventory accumulation fell from $11 billion to almost nothing. Ordinarily the production index would have declined about 10 points instead of the 2 points reported when such a large shift on inventory account occurred.

A similar puzzle involves the third quarter national income and product accounts. With preliminary profits estimates added, the statistical discrepancy jumped sharply. In accounting for the lag in gross national product, the inventory estimate is again suspect, though unusually low rates of consumer spending and complications of seasonal adjustment also call for some attention.

Key Question for the Forecaster

Much depends on whether the economy can reach new highs by the end of 1961, or soon after. Key investment factors will behave quite differently with growth in prospect than in conditions of seeming stagnation, and their behavior will largely determine what happens beyond 1961. Important among them are the following:

Inventories. Some analysts are asking how much the rebound from inventory liquidation will add to recovery after the 1961 low. They usually assume that there will be a swing all the way to accumulation and sometimes ignore the fact that 1960 has largely disproved the need for increased inventories. With needs limited, the mere elimination of liquidation is rebound enough; anything more depends on growth in demand.

Existing stocks are on the whole high rather than low. Only the most modest liquidation has occurred so far, and since sales have declined faster than stocks, the inventory-sales ratio has continued to advance. The entire liquidation to date can in fact be explained by the steel situation engendered by last year's strike. The decline will probably have to become more general and persist for some months before stocks have been cut enough to justify any rebound. The sharp increase in unemployment after the election suggests that this movement is now under way.

There has been a tendency for peaks of liquidation to be more extreme in successive postwar recessions. If this one reached only the 1958 level and then dwindled to nothing, the total liquidation in 1961 would probably be less than enough to satisfy past relationships. Hence, there is little warrant for projecting any new splurge of inventory buying. This cycle is not a source of progress.

Business Capital Expenditures. A year ago, business outlays for new plant and equipment provided the most solidly favorable item in the business outlook. Today the prospect is exactly reversed.

Successive downward revisions in planned investment have been reported in the quarterly SEC-Commerce surveys. A further small decline is anticipated for the first quarter of 1961, and the experience of the last five years suggests that this projection, too, is likely to be revised downward. The only annual survey for 1961 now available, the McGraw-Hill survey, reports a decline of only 3 percent from 1960. (The decline in annual rate from the 1960 high to the 1961 low would, of course, be much larger.) There are several reasons for thinking this is too optimistic: The survey was made in October and therefore could not reflect the recent change in expectations; there is typically a lag in revising plans; and excess capacity has continued to accumulate. With excess capacity greater, the decline should at least match 1958, and this would bring 1961 about 10 percent below 1960.

At mid-1961 the lags will be working on the other side, so that a quick upturn would be practically impossible. The only logical expectation is for a decline con-

(Continued on page 8)

COMMERCIAL LIFE INSURANCE

Commercial life insurance as we know it today originated in Europe only about 400 years ago. It began with underwriting the lives of ocean-going sailors as an outgrowth of the long-prevalent custom of insuring sea cargo, a practice which dated to Biblical times. After the writing of the first policy in the late sixteenth century, merchants slowly but steadily began to issue life policies as a sideline to their regular activities. But life insurance as a specialized business did not emerge until about 150 years ago, after formulation of relevant probability theory and compilation of reliable mortality tables.

The mushrooming growth of the life insurance business during the present century, and particularly since World War II, can be attributed mainly to the dynamic increase in the nation's population and income. Also contributing to this growth has been the development of a variety of life policies and plans to satisfy the diversity of needs and incomes of Americans.

A Vigorous Business

Life insurance in the United States is handled primarily by the more than 1,400 legal reserve companies, so called because of the minimum reserve deposits required by their respective home states. These firms account for 90 percent of the national total of $600 billion worth of life insurance in force, the balance being shared by the veterans insurance program, 7 percent; fraternal organizations, 2 percent; and all others, 1 percent.

The growth of the life insurance business has been most rapid since World War II. The total of $545 billion of life policies (excluding credit life) written between 1947 and 1959 was twice the over-all total for the previous twenty years. The record $71 billion written in 1959 alone was seven times that of 1940. More than 115 million Americans holding life policies now are insured by commercial life companies, compared with fewer than 15 million in 1900.

Most legal reserve firms operate either as mutual or as stock companies. Mutuals are owned by their policyholders, whereas stock companies are owned by their stockholders and ordinarily do not require the latter to purchase participating insurance in the company. More than 62 percent of the total commercial insurance in force during 1959 was held by mutuals, which, although outnumbered 4 to 1 by stock companies, are older and for the most part larger.

Types of Insurance

The oldest and most popular type of policy is ordinary life, which is usually purchased by the individual directly from the life company agent. It is favored because of the many types of plans it offers. This form of insurance constitutes three-fifths of total insurance in effect with commercial companies.

Two other major forms of life insurance are group and industrial life. Group life today covers more than one-half of the nation's civilian nonagricultural work force and is issued by life companies to employers under a master policy which insures the employees as a group. Industrial, which has not expanded significantly in the postwar era, is similar to ordinary insurance but is usually limited to coverage of less than $500. It was developed originally as a way of selling insurance with minimal but frequent premium payments to low wage earners. Industrial life with 102 million policies is the most widely subscribed of all insurance types.

Formerly a seldom-used type of insurance, credit life has become increasingly important with the quickened pace of credit buying since the 1940's. Issued by life companies through financial institutions and retail establishments, it is designed to protect business from loss as a result of the death of persons with debts on instalment purchases or personal loans. More than 26 million credit life policies and certificates are currently in force, which account for about 5 percent of total life insurance outstanding. Credit and group life, which are usually written for specific periods of coverage, together make up three-fourths of total term insurance.

Life Insurance in Illinois

Illinois ranks fourth among the states in the sale of life insurance and in the number of people protected by life policies. Last year, an estimated 7 million Illinois citizens were insured by 17 million policies or certificates. In all, life insurance valued at $36 billion is owned in the State.

Fifty-three life companies with headquarters in nineteen different cities are located in Illinois. Chicago's 31 firms, including 7 of the 10 largest companies in the State, make that city, of course, the center of activity here. The companies located in the State last year received $470 million from life-policy holders, or an average of $50 a policyholder. Nearly 80 percent of the $24 billion in life insurance with Illinois companies is written to out-of-state subscribers.

The six largest Illinois companies in terms of value of insurance in force are Continental Assurance, Chicago; Franklin Life, Chicago; Old Republic Life, Chicago; Washington National, Evanston; State Farm, Bloomington; and Allstate, Skokie. Except for Sears, Roebuck's Allstate organization, which entered the life field in 1957, each of the firms mentioned has been in business more than three decades; the oldest is Franklin Life, which was founded in 1884.

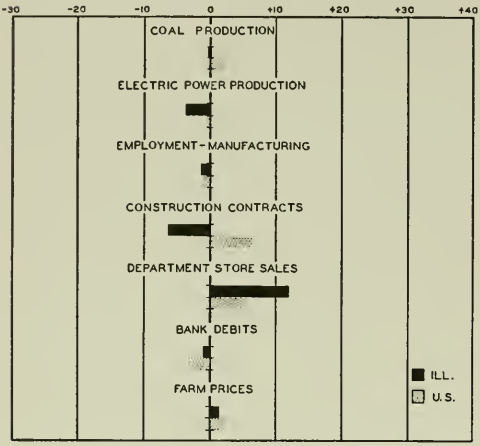
More than $214 million in death benefits was paid to Illinois policyholders during 1959. However, "living" benefits, which include matured endowments, disability payments, annuities, and dividends, have become even greater in importance; today, the benefits to living Illinois policyholders make up about three-fifths of life payments, about the same as the national proportion.

An expected twofold increase in the present population within the next forty years should provide strong impetus for continued life insurance growth. The rate of this growth, however, will be tempered by economic conditions affecting the amount individuals can comfortably allot to long-term payments, such as life insurance.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1960, to October, 1960



ILLINOIS BUSINESS INDEXES

Item	Oct. 1960 (1947-49 =100)	Percentage change from Sept. 1960	Percentage change from Oct. 1959
Electric power[1]	244.8	− 3.8	+10.3
Coal production[2]	85.5	− 0.2	− 4.3
Employment—manufacturing[3]	98.2	− 1.2	− 2.7
Weekly earnings—manufacturing[3]	172.4[a]	+ 1.7	+ 2.7
Dept. store sales in Chicago[4]	130.0[b]	+ 7.4	+ 0.8
Consumer prices in Chicago[5]	130.7	+ 0.2	+ 1.1
Construction contracts[6]	338.7	− 6.2	−12.2
Bank debits[7]	221.4	− 0.9	+ 6.8
Farm prices[8]	81.0	+ 1.2	+ 6.6
Life insurance sales (ordinary)[9]	297.6	+ 6.6	+ 1.0
Petroleum production[10]	115.9	− 3.3	− 4.3

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Data for September, 1960, compared with August, 1960, and September, 1959. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Oct. 1960	Percentage change from Sept. 1960	Percentage change from Oct. 1959
	Annual rate in billion $		
Personal income[1]	409.6[a]	+ 0.2	+ 6.6
Manufacturing[1]			
Sales	355.2[a]	− 1.7	+ 0.7
Inventories	54.3[a, b]	− 0.7	+ 5.4
New construction activity[1]			
Private residential	23.0[c]	− 5.1	−14.7
Private nonresidential	18.7[c]	+ 1.7	+13.6
Total public	19.4[c]	− 3.8	+12.2
Foreign trade[1]			
Merchandise exports	19.3[d]	− 0.2	+ 8.9
Merchandise imports	13.9[d]	− 5.5	−16.7
Excess of exports	5.4[d]	+17.0	+417.0
Consumer credit outstanding[2]			
Total credit	54.2[b]	+ 0.1	+ 8.7
Instalment credit	42.2[b]	+ 2.8	+ 9.9
Business loans[2]	36.2[b]	− 1.4	+ 6.2
Cash farm income[3]	40.4[d]	+12.6	+ 1.4
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	107[a, e]	0.0	+ 4.9
Durable manufactures	102[a, e]	0.0	+ 6.2
Nondurable manufactures	113[a, e]	− 0.9	+ 1.8
Minerals	96[a, e]	0.0	+ 5.5
Manufacturing employment[4]			
Production workers	98	− 0.8	+ 0.4
Factory worker earnings[4]			
Average hours worked	99	+ 0.3	− 1.7
Average hourly earnings	174	+ 0.4	+ 4.5
Average weekly earnings	173	+ 0.7	+ 2.7
Construction contracts[5]	291	+ 6.4	+ 5.9
Department store sales[2]	150[a]	+ 4.2	+ 1.4
Consumer price index[4]	127	+ 0.4	+ 1.4
Wholesale prices[4]			
All commodities	120	+ 0.4	+ 0.5
Farm products	89	+ 1.9	+ 3.4
Foods	109	+ 0.8	+ 2.4
Other	128	+ 0.2	− 0.2
Farm prices[3]			
Received by farmers	89	+ 2.3	+ 2.3
Paid by farmers	119	0.0	0.0
Parity ratio	81[f]	+ 1.2	+ 2.5

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for September, 1960, compared with August, 1960, and September, 1959. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960 Nov. 26	Nov. 19	Nov. 12	Nov. 5	Oct. 29	1959 Nov. 28
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,278	1,341	1,331	1,321	1,332	1,630
Electric power by utilities mil. of kw-hr.	13,500	14,042	14,111	13,982	13,883	13,173
Motor vehicles (Wards) number in thous.	128	172	160	164	168	56
Petroleum (daily avg.) thous. bbl.	6,992	6,968	6,955	6,940	6,821	6,969
Steel 1947-49 =100	79	85	85	86	90	147
Freight carloadings thous. of cars	471	567	565	599	621	574
Department store sales 1947-49 =100	173	170	163	149	149	176
Commodity prices, wholesale:						
All commodities 1947-49 =100	119.6	119.6	119.4	119.4	119.0	118.9[a]
Other than farm products and foods 1947-49 =100	127.8	128.0	127.9	127.9	127.6	128.5[a]
22 commodities 1947-49 =100	83.0	82.8	83.0	82.9	83.4	84.9
Finance:						
Business loans mil. of dol.	31,702	31,837	31,576	31,656	31,435	29,901
Failures, industrial and commercial number	276	329	298	317	331	268

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for November, 1959.

RECENT ECONOMIC CHANGES

Freight Carloadings

Freight carloadings in November averaged about 550,000 cars a week, down 12 percent from October and 8 percent from November, 1959. As indicated in the accompanying chart, average weekly loadings trailed 1959 throughout much of the first half of this year. However, because of the sharp drop caused by the steel strike in the third quarter of last year, 1960 carloadings surpassed 1959 levels from July through October.

The pattern among the various product classes for the first eleven months was mixed. Gains were registered in shipments of ore, up 43.6 percent; coke, up 5.8 percent; and grain and grain products, up 1.4 percent. Offsetting these advances were reductions in all other classes, led by declines of 13.9 percent in shipments of merchandise in less-than-carload lots and 13.8 percent in livestock. The important miscellaneous class, which includes all manufactured goods, fell 2.8 percent.

Personal Income

Personal income increased in October to a seasonally adjusted annual rate of $409.6 billion, a gain of $800 million from the preceding month.

The latest rise occurred despite a continued reduction in incomes from manufacturing wages and salaries, which were off $200 million from the September rate of $87.5 billion. The drop, however, was more than offset by gains in construction, retail trade, and state and local government payrolls. Another important factor was a $300 million rise in transfer payments, reflecting recent increases in unemployment benefits.

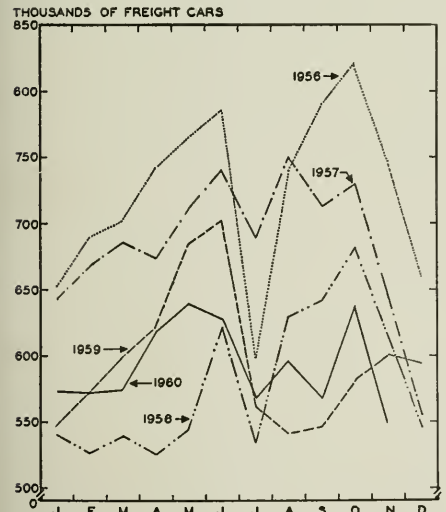
Capital Expenditures

Business spending for plant and equipment, which has been falling since midyear, is expected to continue downward into 1961. The latest figures on capital spending issued by the Security and Exchange Commission and the Department of Commerce are as follows:

BUSINESS CAPITAL EXPENDITURES
(Seasonally adjusted, billions of dollars at annual rates)

	Actual		*Anticipated*	
	2nd Qtr. 1960	*3rd Qtr. 1960*	*4th Qtr. 1960*	*1st Qtr. 1961*
Manufacturing	14.70	14.65	14.3	14.3
Durable goods	7.40	7.35	6.9	7.1
Nondurable goods	7.30	7.30	7.4	7.2
Mining	1.05	1.00	1.0	1.0
Railroads	1.10	1.00	1.0	.7
Non-rail transportation	2.15	1.90	1.8	1.6
Public utilities	5.70	5.60	5.9	5.7
Commercial and other	11.60	11.75	11.7	11.7
Total	36.30	35.90	35.6	34.9

FREIGHT CARLOADINGS
(Weekly averages)



Source: Association of American Railroads.

Farm Exports

Agricultural exports in the first three months of fiscal 1961 advanced to $1,055 million, about 6 percent greater than the $994 million of a year ago. Substantial gains in sales abroad of cotton, wheat and flour, and soybeans more than offset declines in feed grains, animal products, vegetable oils, rice, tobacco, and vegetables.

The three largest dollar markets — the United Kingdom, Canada, and Japan — accounted for three-quarters of the total rise in agricultural exports. Purchases of United States farm products by these markets totaled $318 million during the period, compared with $274 million last year. The largest advance in exports to any one country, however, was the $46 million increase to India, mostly under the surplus disposal program permitting payment in foreign currency.

Dividend Payments

Cash dividend payments by corporations issuing public reports totaled $921 million in October, a gain of 4.9 percent over payments of $878 million in October, 1959.

On a cumulative basis, publicly reported dividend payments were up 5 percent from $10.2 billion in the first ten months of 1959 to slightly over $10.7 billion in 1960. Increased equity financing has been the main factor in the gain in dividend disbursements.

All major industry groups contributed to the year-to-year advance with the exception of the oil refining, transportation equipment, and railroad industries.

Unemployment

The number of jobless rose in November by more than 450,000, pushing total unemployment above the 4 million mark, a postwar high for the month.

At the same time, employment declined by 300,000 as the effects of the slowdown in business activity began to spread into most areas of manufacturing.

Labor Department data, in thousands of workers, are as follows:

	Nov. 1960	*Oct. 1960*	*Nov. 1959*
Civilian labor force	71,213	71,069	69,310
Employment	67,182	67,490	65,640
Agricultural	5,666	6,247	5,601
Nonagricultural	61,516	61,244	60,040
Unemployment	4,031	3,579	3,670
Seasonally adjusted rate	6.3	6.4	5.9

FULL EMPLOYMENT VERSUS PRICE STABILITY

PAUL WELLS, Assistant Professor of Economics

Since the end of World War II, prices in the United States have increased by more than one-third. The magnitude and persistence of this fifteen-year inflation have caused many who are mindful of the performance of the economy to suggest that price stability as well as full employment be made a goal of national economic policy.

Perhaps some who have recommended this are not greatly concerned with the need for full employment. What seems more likely is that many among those who have argued that prices ought to be stabilized have not given sufficient attention to the problem of whether both of these highly desirable goals can be achieved simultaneously. If indeed price stability and full employment are incompatible, then, rather than idly recommending that which cannot be accomplished, it would be more worth while to identify the forces that operate to cause prices to rise when the economy is producing at full employment. On the basis of this knowledge, policies to reduce the upward pressures on prices could be formulated so that the economy could achieve, at least in the long run, both high employment and price stability.

In this brief article it will be argued that (1) full employment and stable prices are irreconcilable at the present time; and (2) the degree of inflation the economy need suffer at full employment is a good deal less than that which the nation has suffered over the past fifteen years. Finally a number of anti-inflationary policies consistent with full employment will be suggested which may be used whether or not any changes in the Employment Act of 1946 are adopted.

Keeping Demand in Line With Capacity

The totality of forces that cause prices to rise may be grouped into three distinct sets. Two of these operate most vigorously when the economy is fully employed and so serve to produce what we may call the "minimal amount of inflation" consistent with full employment. The third set of forces causing prices to rise theoretically need never operate, because the federal government already possesses a sufficient array of monetary and fiscal measures to prevent this source from generating inflation. This controllable cause of rising prices is excess demand.

Prices rise when buyers try to purchase more goods and services than are currently being produced by business. Spending more money than is needed to purchase the available supply of goods and services causes prices to rise to the level at which buyers no longer try to purchase more, at the new higher prices, than is available. However, as prices rise in response to the excess demand, producers find it profitable to increase their output. To do this they attempt to hire more labor and to purchase more intermediate goods and capital equipment. If the economy is functioning at a high level of employment, this additional spending causes wages, wholesale prices, and the prices of capital equipment to rise. As all prices and wages rise, buyers' incomes rise, and this enables them to increase further their money expenditures for goods and services. The result is a continuing inflation of prices.

It is not correct to conclude from this that all increases in demand will cause prices and wages to rise when the labor force is fully employed. An offset to an increasing demand is available as long as the ability of the economy to produce goods and services is continually growing. What is important, in other words, is the relative rates of growth of demand and capacity.

Suppose, for example, that the capacity of the economy were growing at the rate of 5 percent a year. Then demand could also increase at the rate of 5 percent a year without causing prices and wages to rise. If, however, demand increased by a greater amount it would exceed capacity and prices and wages would rise.

On the other hand, if demand increased by a lesser amount, unemployment would rise because business would then have to lay off workers and cut back in order to avoid producing more than it could sell at current prices. Business has always been quick to reduce output and employment and slow to reduce prices when markets soften. Thus excess demand causes prices and wages to rise and deficient demand causes employment to fall.

It may be concluded that if excess demand were the only force at work causing prices and wages to rise, then the economy could be regulated so that it could enjoy both full employment and stable prices. If demand became excessive, the monetary-fiscal authorities could act to reduce it — by raising taxes, reducing their expenditures, and raising the rate of interest. In times of deficient demand it could be stimulated so that it would increase at a rate just equal to the growth in the country's capacity to produce.

Other Pressures for Higher Prices

Unfortunately, there are forces at work in the economy other than an excess in over-all demand that cause prices and wages to rise. Even though demand were to increase by an amount just equal to the growth in over-all capacity, the prices of *some* goods and services would tend to be pushed up. When incomes are rising, buyers concentrate their growing demands on some goods and services and even exacerbate the pressures on these prices by shifting their expenditures away from other goods and services. This "demand-shift" creates an excess demand for *particular* products which causes their prices to rise and wages of workers producing these commodities to rise also.

There is no offset for these price increases even though the industries producing the commodities from which demand has shifted find that they can produce more output than they can sell at current prices. Rather than reduce prices (because prices and wages are loath to fall) these industries will simply employ fewer workers and produce less.

Because there are no offsets against the higher prices charged for the commodities toward which demand has shifted, the level of prices throughout the country will be higher. If resources were highly mobile they could quickly move to the rapidly expanding sectors of the economy and this would prevent the prices of these more sought after goods and services from rising by large amounts. However, resources are not highly mobile between these rapidly expanding sectors and the remainder of the economy, so that a moderate increase in over-all demand may both raise the price level and increase unemployment in sectors of the economy from which demand has shifted. To prevent the latter, over-all demand would have to increase by greater amounts. That is, it would have to grow at a rate in excess of the rate of growth of capacity.

Finally, prices may rise because of pressures exerted

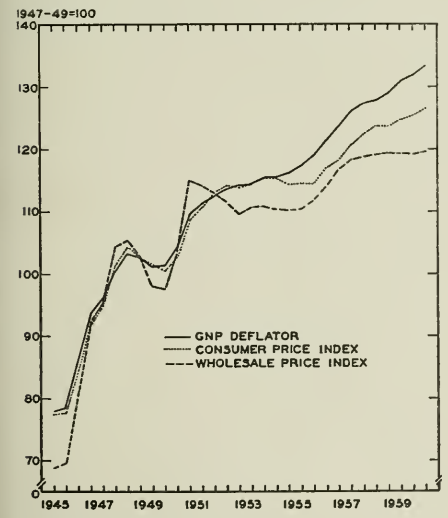
by business and labor unions who insist on raising prices and wages even though there may be no excess demand for their goods and services. This type of inflation (which is called "sellers' inflation") could be initiated by business firms increasing their prices even though their costs (particularly their wage costs) have not increased. Their reason for increasing prices would be to establish what they thought to be a satisfactory or even necessary profit margin. However, when prices rise the purchasing power of given money wages falls. Labor unions then bargain for higher wages to restore and improve the living standards of their members. Business then "innocently" raises prices once again to protect necessary profit margins and a sellers' inflation would be under way.

The continuance of a sellers' inflation depends upon firm market conditions. It is most effective when a high level of employment is maintained throughout. This requires, in turn, that demand grow at a rate sufficient to "take care" of both increases in the economy's capacity to produce and price increases due to demand shifts and to the price- and wage-increasing activities of business and labor unions. If demand did not grow by this critical amount, idle capacity and unemployed labor would make it increasingly difficult for business to raise prices and labor unions to bargain for higher wages. At some sufficiently high level of unemployment and idle capacity, sellers' inflation would be nil, but this could happen only in the event of a fairly deep depression. Thus this kind of inflation can be fully controlled only at the expense of making the nation suffer high unemployment.

Our Incompatible Objectives

We must, then, come to the cheerless conclusion that because of demand-shift and sellers' inflation full employment and over-all price stability are irreconcilable. Full employment must be accompanied by some inflation. Stable prices can be had only if the nation is willing to endure the unemployment they require.

INDICATORS OF PRICE CHANGES



Sources: U.S. Department of Commerce and Bureau of Labor Statistics.

The fact that full employment and stable prices are irreconcilable does not mean that the nation necessarily must suffer another 35 percent increase in the price level over the next fifteen years if it is to have continuous full employment. There is no need to reproduce completely the conditions of the past decade and a half. Only two of the three forces causing inflation — demand-shift and sellers' inflation — need operate in the future whereas all three inflationary forces — excess demand, demand-shift and sellers' inflation — operated jointly to produce the inflation of the past fifteen years.

An examination of the manner in which prices have risen supports this conclusion. The accompanying chart records the changes in the price level as measured by three widely used general price indexes. These indexes show that prices increased most rapidly in what must have been periods of sizable excess demand. They were the postwar boom which extended through 1948, the initial Korean War period from mid-1950 through 1951, and the period beginning late in 1955 and extending through 1957. These three periods alone account for more than four-fifths of the total increase in the GNP deflator. From this it may be concluded that a good deal of the inflation registered by these measures must have been due to the fact that demand was allowed to rise at too rapid a pace during these three intervals. Had demand been kept more in check by higher taxes, say, prices would have risen because of demand-shift and sellers' inflation, but they would not have risen so much. Hence, part of the inflation could have been avoided without any increase in unemployment.

From the foregoing discussion it may be seen that it would be erroneous to argue the merits of various policies designed to stabilize prices unless due regard were given to the consequences these policies would have on the level of employment. It would seem, then, that economic policy should aim not at stabilizing prices completely but at minimizing the amount of inflation the country would suffer at full employment.

Some Policies for Price Restraint

Full employment inflation could be minimized, and perhaps some day vanquished, by the implementation of a number of measures. Foremost among these would be the stabilization of the growth of demand so as to prevent excess demand from forcing prices and wages up and deficient demand from causing unemployment. Demand could most easily be stabilized if the monetary-fiscal authorities could raise personal income taxes and interest rates on mortgages and consumer credit swiftly when demand was more than sufficient to establish full employment. The opposite would be done to prevent unemployment when demand was deficient. Although such a policy would probably produce periodically larger deficits and surpluses in the federal budget than now occur, it would cause the economy to suffer much less unemployment during its depressed years and much less inflation during its boom years.

Demand-shift inflation could be reduced by making it easier for those businesses experiencing rapid increases in demand to raise their production rather than their prices. This could be done if state and local governments together with the federal government established vigorous programs to increase the mobility and training of the unskilled part of the labor force. Then the rapidly expanding industries could more easily acquire the kind of labor required to increase their output.

Finally sellers' inflation could best be reduced by in-

creasing both the rates at which the productivity of the entire labor force and the technical efficiency of capital equipment grow. This would enable business to pay higher wages without having to increase prices because profits would be protected automatically through use of less labor per unit of output. Thus rapid gains in productivity make possible high wages and high profits with stable prices.

Labor productivity could be improved more rapidly by increasing the education and health of the work force. More technically efficient capital equipment could more easily be brought into use if society devoted more of its resources to basic scientific research and if business devoted more of its research to the important matter of turning out improved products at reduced cost and wasted less in making its products look, smell, and feel more desirable without regard to better performance.

To aid and encourage business to acquire and utilize the latest techniques of production the monetary-fiscal authorities could establish a low rate of interest on industrial loans. This would enable producers to finance their purchases of the most advanced capital equipment cheaply and easily. Other policies that would help business raise productivity, and so reduce the upward pressures on prices, would also contribute to the nation's economic stability over the long run.

Lastly, awareness on the part of both business and labor unions that percentage increases in wages and profits in excess of productivity gains are inflationary would indeed be helpful.

Prosperity on Trial

(Continued from page 2)

tinuing through the year — as it did in the three previous recessions. It may bottom out, as before, in early 1962, but this depends on the state of business. The turn cannot be definitely expected unless over-all production is rising to a new record high.

Residential Construction. Homebuilding has been declining since early 1959 and no upturn is expected before next spring. Nevertheless, higher activity in 1961 is widely predicted. For this to happen, an extraordinarily sharp upswing would have to occur in the last half of 1961. The case for such a recovery rests almost entirely on easy money, and the failure of the market to respond to more plentiful funds this year has been "explained" as a "lag effect."

In contrast, the case for a continued decline in homebuilding is impressive. The rate of new family formation will continue low, with only gradual increases in prospect through the early 1960's. Unemployment is rising, and this will have an unfavorable effect on marriages in 1961. The housing inventory has been increasing faster than the demand for new units; the latest report showed 7.6 percent of rental units vacant. Furthermore, a much larger proportion of the current building is in "mass housing," the volatile category which includes both apartment houses and large-scale "tract" operations. With the demographic, income, and inventory factors unfavorable, the odds favor lower rates of homebuilding rather than any increase in 1961.

Government. Government purchases of goods and services are definitely on the upgrade. State and local spending is still pursuing its long postwar uptrend. Federal spending made an upturn in current dollars in the third quarter but not in constant dollars. Even in the latter terms, however, purchases are likely to increase, partly because of commitments already made and partly because some new programs will be undertaken. The combined total is expected to rise by over $5 billion in real terms during the next year and possibly half again as much in current dollars.

In addition, the government sector will contribute to recovery by way of the automatic stabilizers. Transfer payments will rise and taxes will fall. These effects are related to unemployment and falling income and must be taken into account in any realistic forecast.

Consumer Expenditures. In forecasting consumer expenditures, income is still the most important single consideration. This implies that with some lag consumption will tend to decline and recover with income. On the basis of the factors discussed above, national income is likely to be somewhat lower a year hence, since the declines in private capital formation more than outweigh the increases in government purchases of goods and services. Nevertheless, two influences will tend to keep personal income high — the automatic stabilizers and some autonomous elements in consumer spending, mainly for services. Recovery in disposable income and consumption should therefore be relatively complete. At worst, 1961 should average only a little lower than 1960.

On the other hand, there is no reason to expect any large over-all gain from the previous high despite substantial current-dollar increases in the services. There is increasing evidence that backlogs no longer exist: Stocks of durable goods have been built up, liquid assets holdings have fallen back into line with income, and large borrowing potentials have been used to expand debt. Hence, the attachment of expenditures to income is likely to be closer than in previous postwar recessions.

Consumer durable expenditures and consumer credit seem likely to be adverse factors in 1961. The auto market, for example, has shifted away from the enthusiasm of the mid-1950's to a more definite emphasis on economy. Sales of 6.6 million passenger cars this year partly reflect a carryover of sales from strike-restricted 1959. Elimination of this special influence aggravates a decline likely to occur for other reasons and may bring 1961 sales down to little more than 5 million units. Consumer credit changes have shown some tendency toward increasing weakness in successive recessions. At the 1961 low, a new peak in liquidation is likely to be experienced — say, at an annual rate of $2.5 billion — but following the pattern of the inventory cycle, the pressure to liquidate should be dissipated by the end of the year.

What this all adds up to is a contraction in gross national product followed by partial recovery. From high to low the decline in real terms seems likely to fall a little short of the magnitude of 1957-58. In the following recovery, there will be partially offsetting declines in some factors. The extent of the recovery might be minor or relatively complete; the behavior of housing and possible new government programs seem likely to play particularly important roles in the outcome. Even at best unemployment seems likely to be higher and corporate profits lower a year hence.

The general outlook conforms to a pattern that has been aptly described as "creeping, high-level stagnation." The really interesting issue concerns what lies beyond. There is reason to doubt that stagnation can long prevail in our dynamic economy. For growth is needed to sustain investment. Prosperity itself will be put on trial in this 1961 test of growth forces. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Fewer School Systems

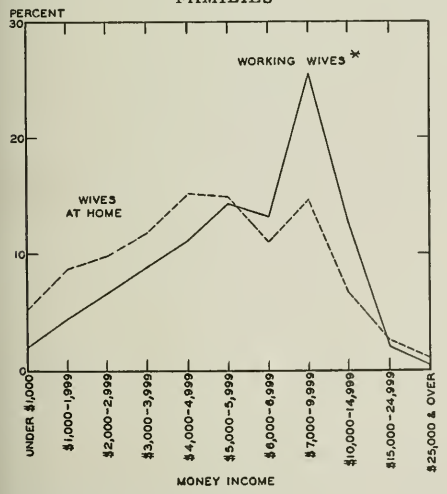
The Bureau of the Census has reported that efforts in various states to reorganize and consolidate local school systems have resulted in cutting the number of local education systems in the nation to about 42,000 in 1960. This figure represents a reduction of more than 10,000 since 1957, approximately 27,000 since 1952, and some 70,000 since 1942. Despite this record, there are still a great many very small school systems in the country. Some 15,000 school systems provide education for fewer than 50 pupils each, and another 7,000 systems operate no schools but send their local pupils to schools run by other systems.

The Census reports that presently two-thirds of the systems that operate public schools are limited to the elementary grades. These systems enroll 4 million children, or about 10 percent of all public school pupils. There are 1,300 separate high-school and junior-college systems, enrolling together nearly 5 percent of all public school students. The school systems which provide education in both the elementary and secondary grades have 30 million pupils, or 85 percent of all public school enrollment.

Working Wives and Family Income

The November, 1960, issue of *Business Record* reports that in 1959 the 11 million families in the United States in which wives with husbands present worked outside the home were primarily middle-income families. As the accompanying chart shows, in the income groups from $7,000 to $15,000 a year, working-wife families were relatively more numerous than were families with wives staying at home. On the other hand, families with working wives made up a smaller proportion of families in the low-income and low-middle-income ranges, as well as the higher-income ranges of $15,000 or more a year, than did the families with wives staying at home.

INCOME DISTRIBUTIONS OF HUSBAND-WIFE FAMILIES



* Wives in the paid labor force.
Source: National Industrial Conference Board, *Business Record*, November, 1960, p. 16.

It has only been quite recently that working wives have become the dominant part of the female labor force. Married women constituted only about 30 percent of the female labor force prior to World War II. In 1949, working wives accounted for 46 percent of the female labor force, and in 1959, 55 percent.

Reapportionment of Congress

Under the present law a reapportionment of seats in the House of Representatives is made by means of a stipulated computational procedure following each decennial census. The reapportionment becomes effective with the congressional election two years after the census.

According to the population count made by the Bureau of the Census in April, 1960, nine states will gain nineteen seats from the losses of sixteen states. California, with eight new seats, shows the largest gain, followed by Florida with four new seats — the only other state to gain more than one representative. Single representatives are gained by Arizona, Hawaii, Maryland, Michigan, New Jersey, Ohio, and Texas. Pennsylvania has the largest loss, with three seats, followed by Arkansas, Massachusetts, and New York, with losses of two seats each.

The Western region acquires ten additional seats for a total of 69, and the Northeast region drops to 108 seats, a loss of seven. The North Central region loses four seats, for a total of 125, and the South loses one seat, leaving a total of 133. In order to abide by the law, which limits the number of seats in the House of Representatives to 435, the two seats that were temporarily added when Alaska and Hawaii became states are dropped at the time of the reapportionment. This accounts for the Western region gaining only ten seats, whereas the combined losses of the other three regions total twelve seats.

New Product Developments

A new development in the field of convenience foods is the freeze-dry technique of preserving perishable foods. This new technique involves first freezing the food and then heat-drying it in a vacuum that sucks away the moisture as vapor, leaving the food in a hardened condition. The food is prepared by soaking it in water and cooking or, in the case of precooked food, by just soaking it in hot water and serving. Although the freeze-dry process is not in widespread use commercially, there are a number of food processors who are showing a great interest in it. For example, Armour and Company has built a new $1 million research laboratory and pilot plant in Bellwood, Illinois, for the purpose of carrying on freeze-dry research with meats, along with other research on new convenience foods.

Another new development is the installation by the Norge Division of Borg-Warner Corporation in Effingham, Illinois, of the first coin-operated dry cleaning machines for commercial use. The cost of cleaning an eight-pound load of clothes in such a machine is $1.50. It is reported that the clothes, including suits and dresses, come out wrinkle free and retain their original creases. Although the new dry cleaning machines are now too expensive for home use, they can be bought in groups of eight for a total of $15,000.

LOCAL ILLINOIS DEVELOPMENTS

Most of the available measures of Illinois business activity turned down in October from the preceding month. The largest decline was in construction contracts, which fell 6 percent. This is in contrast to the 6 percent rise in construction contracts experienced in the nation as a whole. Declines were also reported for electric power, petroleum production, manufacturing employment, bank debits, and coal output.

Illinois Birth and Death Rates

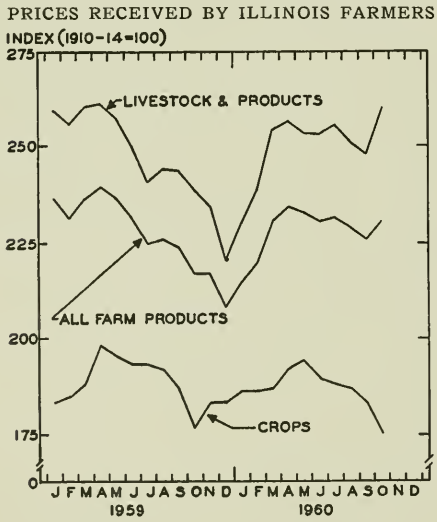
Data recently released by the Illinois Department of Public Health indicates that the number of live births in the State was higher in 1959 than in any preceding year. During 1959 nearly 240,000 live babies were born, a birth rate of 24.2 live births per 1,000 population, slightly less than the all-time high live birth rate of 24.5 per 1,000 population set in 1957.

There were about 100,000 deaths from all causes among Illinois residents in 1959, a death rate of 10.2 per 1,000 population, as compared with the postwar low of 10.0 in 1954. The excess of births over deaths yielded a natural population increase of about 140,000, compared with a natural population increase of 97,000 in 1950, 35,000 in 1940, and 44,000 in 1930.

The vital index, which is the ratio of births to deaths, has increased from 154 live births per 100 deaths in 1930 to 237 in 1959. Although the vital index fell below the 1930 level from 1931 through 1945, it rose sharply in the late 1940's and continued to climb in the 1950's.

Agricultural Prices Rise

The all-commodity index of prices received by Illinois farmers on October 15, 1960, rose to 231 percent of the 1910-14 average. In the past two years, the all-commodity index has ranged from a high of 240 percent in mid-April, 1959, to a low of 208 percent in mid-December, 1959. Prices received by farmers have recovered appreciably from the decline experienced during the last half of 1959 (see chart). This rise is reflected in the price index of livestock and livestock products, which on October 15, 1960, had increased to 260 percent of the 1910-14 base, the highest it has been since mid-April, 1959. This upturn was due mainly to the rise in hog and poultry prices. Since the beginning of this year, hog prices have risen 55 percent and poultry prices about 30 percent.



Source: Illinois Cooperative Crop Reporting Service, "Prices," monthly reports.

In contrast to the general rise in the price index of livestock and livestock products, the all-crop price index has declined steadily since mid-March of this year, reaching a low of 175 percent in mid-October, 1960. The steady fall in the all-crop price index reflects primarily price declines for corn and soybeans.

New Telephone Service in Morris

At the present time, a sample of 319 farm, business, and residential telephone subscribers in Morris, Illinois, are receiving the services of a new central office system. The Bell Telephone Laboratories are testing a new kind of telephone central switching office which is all-electronic and largely eliminates moving or wearing parts. The Morris try-out will continue for one or two years, while engineers and scientists observe how successfully it operates.

Some of the added services that are now available to the citizens of Morris indicate the merits of the new system. A telephone can be converted into an intercom by simply dialing a two-number code that will ring any extension in a home or office. By dialing a four-digit code following a phone number, one is able to have all incoming calls transferred automatically to that number, and by dialing another four-digit code normal service is restored. For business, the new central switch office will automatically ring the proper alternative extension whenever the dialed extension line is busy. The new system makes it possible for a customer who gets a busy signal to dial a code that will automatically ring the line as soon as it is free. Also, another code and number may be dialed which will allow a hook-up with a third party.

New Auto Insurance Plans

A new automobile policy with a safe-driver rating plan and a single limit for bodily injury and property damage became effective on December 1, 1960. This new policy is effective for Illinois motorists whose policies are issued by insurance companies that belong to either the National Automobile Underwriters Association or the National Bureau of Casualty Underwriters.

Under the safe-driver plan, a car owner can receive a maximum decrease in rates of 15 percent if his driving has been accident-free during the past three years. The rates are based upon a point system. One point is assigned for each chargeable accident resulting in bodily injury or more than $50 property damage and for two or more chargeable accidents resulting in property damage of $50 or less. Two points are levied for reckless driving and three points are assessed for driving while intoxicated or under the influence of drugs. A car owner with one point will pay the basic premium plus 5 percent. The point scale goes up to four at which time a car owner will pay the basic premium plus 50 percent.

Under the single limit coverage, Illinois motorists will have bodily injury and property damage liability combined. This contrasts with prior policies which gave liability protection up to a certain limit of bodily injury and up to a certain limit for property damage.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1960

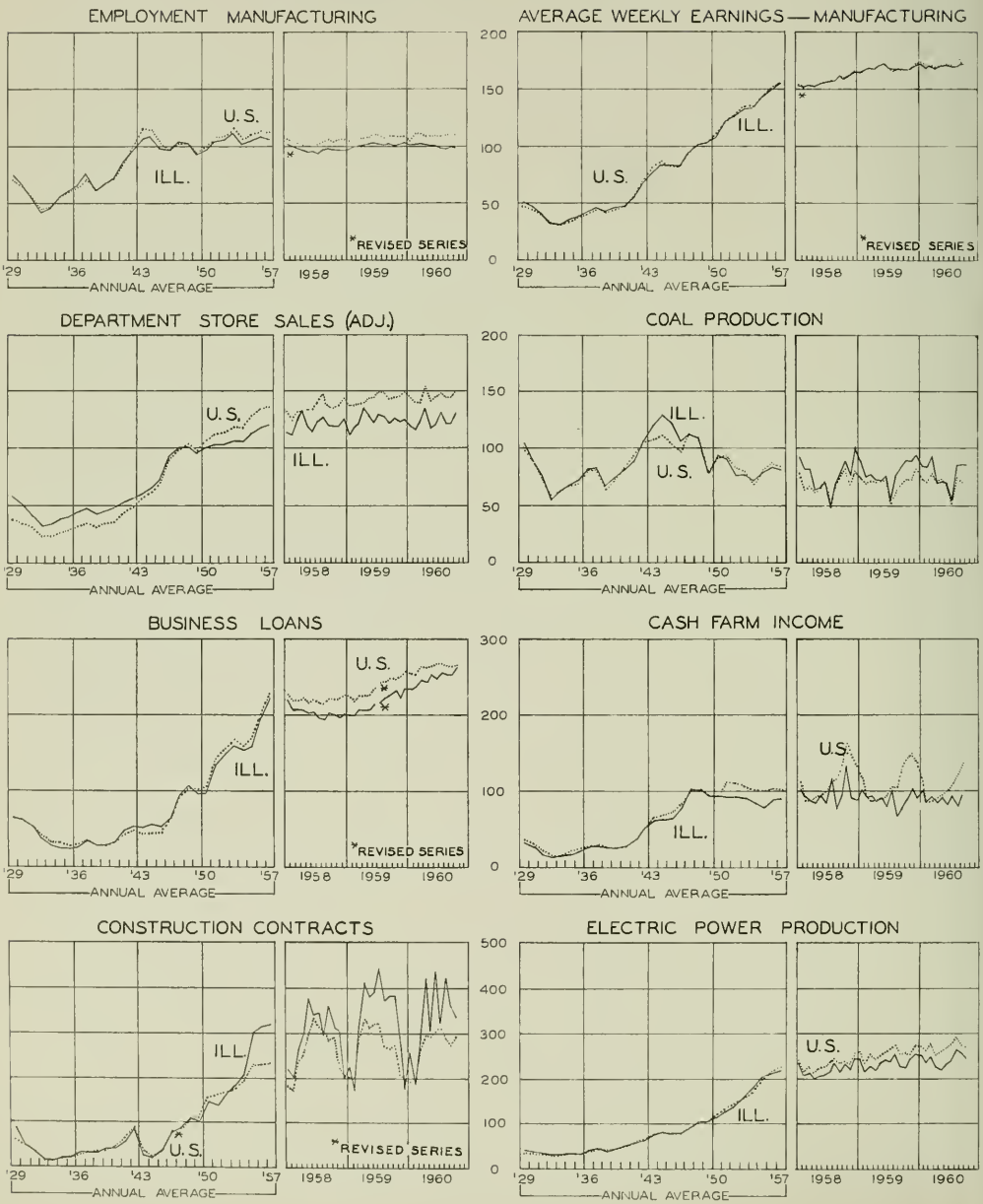
		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$43,618[a]	1,227,950[a]	$534,326[a]		$19,353[a]	$19,653[a]
Percentage change from	Sept., 1960	−33.6	−7.5	+1.9	+12	−0.9	+14.3
	Oct., 1959	+9.1	+5.4	−3.7	−3	+6.8	+10.1
NORTHERN ILLINOIS							
Chicago		$33,449	897,433	$384,424		$17,795	$17,343
Percentage change from	Sept., 1960	−39.4	−6.7	+1.6	+13	−1.3	+14.9
	Oct., 1959	+6.0	+5.7	−4.6	−2	+7.4	+10.3
Aurora		$1,392	n.a.	$ 8,853		$ 84	$ 164
Percentage change from	Sept., 1960	+102.9		−1.7	+8	+0.8	+3.8
	Oct., 1959	+35.8		−5.3	−3	−1.9	+9.7
Elgin		$ 503	n.a.	$ 5,640		$ 52	$ 147
Percentage change from	Sept., 1960	−19.4		−7.3	n.a.	+0.6	+31.2
	Oct., 1959	+128.6		−10.1		−4.0	+24.2
Joliet		$ 450	n.a.	$10,957		$ 92	$ 111
Percentage change from	Sept., 1960	+50.0		+6.1	+1	−5.8	+7.9
	Oct., 1959	−41.1		+4.4	−1	−5.6	+8.2
Kankakee		$ 245	n.a.	$ 4,909		n.a.	$ 80
Percentage change from	Sept., 1960	+140.2		−4.2	n.a.		0.0
	Oct., 1959	+48.5		−9.7			+30.3
Rock Island-Moline		$1,093	26,928	$10,564		$ 124[b]	$ 160
Percentage change from	Sept., 1960	−46.3	−9.5	+0.2	n.a.	+10.1	+15.2
	Oct., 1959	+15.3	−6.0	−12.3		−3.7	+3.2
Rockford		$1,113	50,869	$18,014		$ 203	$ 239
Percentage change from	Sept., 1960	+12.4	−5.7	+6.8	+5[c]	−0.7	+17.9
	Oct., 1959	+10.9	+1.4	−0.9	−7[c]	−6.3	+5.7
CENTRAL ILLINOIS							
Bloomington		$ 840	10,647	$ 5,718		$ 85	$ 135
Percentage change from	Sept., 1960	+37.3	−7.2	+4.1	n.a.	−0.2	+24.2
	Oct., 1959	+133.3	+18.4	+4.9		+21.4	+27.6
Champaign-Urbana		$ 479	14,910	$ 8,542		$ 100	$ 140
Percentage change from	Sept., 1960	+18.3	−8.7	+13.5	n.a.	+27.0	+9.9
	Oct., 1959	−20.7	+5.4	+4.0		+6.9	+3.9
Danville		$ 164	14,180	$ 6,022		$ 57	$ 74
Percentage change from	Sept., 1960	−67.2	−11.4	−3.0	+14	+5.6	+2.7
	Oct., 1959	−16.8	+1.1	−1.4	−5	+2.4	+1.5
Decatur		$ 684	38,350	$11,443		$ 144	$ 131
Percentage change from	Sept., 1960	+16.1	+1.2	+3.0	+8[c]	+19.2	+6.8
	Oct., 1959	+4.1	+7.4	+0.4	−5[c]	+1.0	+0.9
Galesburg		$ 832	9,274	$ 4,480		n.a.	$ 49
Percentage change from	Sept., 1960	+273.1	−8.4	+0.4	n.a.		+3.9
	Oct., 1959	+165.0	+4.5	−4.3			−5.5
Peoria		$ 154	58,161[c]	$16,808		$ 230	$ 320
Percentage change from	Sept., 1960	−83.5	−12.3	+2.3	+10	+1.9	+4.4
	Oct., 1959	−70.5	+11.1	−3.5	−8	−4.1	+0.4
Quincy		$1,109	12,660	$ 5,493		$ 55	$ 85
Percentage change from	Sept., 1960	+917.4	−17.4	+3.1	+2	+7.0	+21.6
	Oct., 1959	+406.4	+14.4	+11.1	−4	+ 2.9	+10.6
Springfield		$ 818	38,792	$13,646		$ 145	$ 298
Percentage change from	Sept., 1960	−29.7	−20.6	+3.0	+12[c]	−2.8	−0.2
	Oct., 1959	−16.8	−1.7	−3.3	−3[c]	+3.8	+18.0
SOUTHERN ILLINOIS							
East St. Louis		$ 72	19,485	$ 8,855		$ 144	$ 78
Percentage change from	Sept., 1960	−74.7	−5.7	+1.3	n.a.	+0.9	+10.6
	Oct., 1959	+4.3	+21.6	+2.7		+0.5	−0.8
Alton		$ 124	24,842	$ 5,210		$ 43	$ 43
Percentage change from	Sept., 1960	−84.3	+0.4	+3.1	n.a.	−6.0	+16.9
	Oct., 1959	−38.9	−1.7	+8.8		−7.2	+6.1
Belleville		$ 97	11,419	$ 4,748		n.a.	$ 55
Percentage change from	Sept., 1960	−4.0	−20.0	+1.4	n.a.		+17.1
	Oct., 1959	−35.8	+6.8	+3.3			+6.5

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for September, 1960. Comparisons relate to August, 1960, and September, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending October 14, 1960, and October 16, 1959.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN DECEMBER

Further slackening of economic activity was evident in December, although some series showed gains. Department store sales advanced more than seasonally, the adjusted index rising 4 points to 146 percent of the 1947-49 average. In contrast, automobile sales were off from a daily rate of 21,200 in November to 18,800 in December; this represented a seasonally adjusted decline of about 20 percent and could only in part be ascribed to stormy weather.

Industrial production continued to decline, the adjusted index dropping another 2 points to 103 percent of the 1957 average. Steel output suffered a further reduction, the rate of capacity utilization for the month averaging less than 50 percent. Automobile production was curtailed to avoid excessive inventory accumulation. Most other available indicators of production were down from November and year-ago levels. The rate of unemployment rose from 6.3 percent in November to 6.8 percent in December as the total number out of work climbed to 4.5 million.

New Construction Declines

The value of new construction put in place dropped in December to $4.4 billion. This was 9 percent below November and reflected a little more than the usual decline for the month.

Total new private construction expenditures in December experienced a somewhat less than usual seasonal decline to $3.1 billion, 7 percent below November and 3 percent below the year-earlier month. New public construction totaled $1.2 billion, down 12 percent from November but 4 percent above December a year ago.

Task Force Reports

An economic task force appointed by President-elect Kennedy and headed by Professor Paul A. Samuelson of the Massachusetts Institute of Technology warned that the incoming Administration must be prepared to take prompt action to spur the "sluggish and tired" economy so it will turn upward during 1961. The report pointed out that business is still moving downward, with the prospect of additional greater-than-seasonal increases in unemployment and still lower profits.

The task force suggested that a temporary cut in individual federal income taxes might be necessary by spring to combat the recession. The group did not endorse a large-scale emergency public works program to combat the decline in business, but it did recommend that increased spending already pledged for defense and foreign aid programs be pushed hard. Instead of the budget surplus in the current fiscal year forecast by the Eisenhower Administration, a deficit was seen as likely by the Samuelson group, because of rising unemployment and falling tax receipts. But it also contended that a healthy economy in the sixties will not require a budget that is exactly balanced in every fiscal year.

Further Inventory Cut

The book value of inventories held by manufacturing and trade firms declined $100 million in November, after seasonal adjustment of the data. This reduction was somewhat smaller than the previous month and about equal to the average monthly drop reported since midyear. All of it was attributable to liquidations of manufacturers' stocks of durables, which were cut $300 million. A $200 million rise in retail inventories of durables, largely as a result of higher auto stocks, partly offset the decline at the manufacturing level. The change brought the total value of inventories down to $92.8 billion, still $4.6 billion above November, 1959.

Sales by manufacturers were off $400 million in November on a seasonally adjusted basis, all of the decline occurring in durables. Deliveries by motor vehicle producers decreased considerably from the high October rate, and sales of electrical machinery were also down. Retail sales of durables fell $100 million. A similar decline in durables sales by wholesalers was offset by an increase in their billings for nondurables. Total sales by manufacturing and trade firms amounted to $59.8 billion, $1.3 billion more than in the year-earlier month.

Rise in Consumer Debt

In November consumer instalment debt, seasonally adjusted, increased $186 million, nearly double the revised figure for the addition in October. Nearly half of the gain was in automobile paper, with expansion of other consumer goods paper and personal loans accounting for the remainder. Total instalment debt outstanding amounted to $42.7 billion at the end of November, of which automobile paper represented $18.0 billion.

Noninstalment debt rose only $24 million in November, after seasonal adjustment. Total consumer debt at the end of the month amounted to $54.6 billion, up $4.1 billion from the year-earlier total.

AMERICAN AID TO UNDERDEVELOPED COUNTRIES · By J. L. McConnell · Page 6

ILLINOIS BUSINESS REVIEW

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Let's Talk About Devaluation

The propensity of economists to reason from assumptions was illustrated at one of the recent meetings of the American Economic Association. Several experts on international trade and finance agreed that part of the gold outflow of recent months was speculative in character, and — assuming that the economy would be put back on the "growth path" again later this year — confidence would be restored with the result that this item in our adverse balance of payments would be eliminated. By inference, they were generally in agreement with one speaker who — assuming that recovery would be rapid under the guidance of the new Administration — asserted that interest rates would rise enough this year to eliminate any adverse flow of investment funds.

More thought should be given to whether such assumptions are warranted. The fact is that we do not have the necessary control over business fluctuations to ensure full recovery this year. No more do we have any way of *knowing* 1962 will be better. The odds that 1962 will exceed 1961 are not far enough from even so that any particular result may be taken for granted. The economic developments of the postwar period have eliminated the contributions of inadequate durable stocks and excessive liquidity to our domestic prosperity, and similar changes abroad have induced foreigners to build reserves instead of buying goods, resulting in an adverse balance of payments that has deflationary impact on our economy.

No Need to Ignore the Problem

If the monetary and economic developments of the postwar years have produced a basic disequilibrium in our competitive position, a point developed here last July, the simplest solution would seem to be an adjustment of exchange rates to remove the disadvantages to our producers. To many, this is simply devaluation. They assume that it cannot be done, that other countries would not permit it, and therefore rule it out of consideration. One prominent economist asserts, without further explanation, that "we must exclude all talk of devaluation. It is not, in fact, a remedy that survives any serious thought."

If this refers merely to a unilateral raising of the dollar price of gold, there is some point to his dictum. If, however, it is also intended to exclude negotiated changes in exchange rates, it is no more than a futile attempt to evade the issue. In the postwar period, most other countries have already modified rates in their favor, sometimes more than once, and there is reason to believe that with recovery this has become one important source of our present difficulties. If we cannot now even discuss a partial reversal of this process with our allies, the alliance is insecure indeed and may ultimately be unable to survive adversity.

Occasionally the "hush-hush" view is challenged. At another of the meetings of professional economists, T. O. Yntema, financial vice-president of Ford Motor Company, pointed out that exchange rates are a special kind of price, which might be changed like other prices except that "adjustment of exchange rates . . . is in conflict with our present mores and status symbols." Nevertheless, after a careful review of the situation, he concluded that the "means of achieving economic adjustments among countries . . . should include adjustments in exchange rates when fundamental changes in cost and supply conditions require them for equilibrium."

Unfortunately, the facts of the situation tend to be submerged in prejudices about "the prestige of the dollar" and unthinking taboos on rate adjustments. Devaluation has usually been undertaken by countries facing not only balance-of-payments deficits but also fiscal difficulties and inflation at home. These conditions do not characterize our situation. True, we have had our share of inflation, but the wholesale price index has been stable for three years, and the increases in consumer prices have mainly been in service items that do not enter into our international accounts. True also, we face new deficits in the government budget, but these reflect revenue losses deriving from lower activity and do not derive from spending in excess of the government's financial ability. Fears that we may place ourselves in the conventional position of other devaluing countries are groundless.

Somewhat more to the point are fears that if there is any tinkering with the peg to gold, the dollar will suffer as an international reserve currency and will no longer serve so effectively as a standard for world finance. No doubt this is a serious matter and would evoke violent psychological reactions from all who feel strongly about it. Too much of this supercharged thinking, however, is tied up with mistaken conceptions about gold. For many years gold has had value only to the extent that the peg to the dollar has conferred value upon it. No one now proposes to lower the real value of the dollar further. The current recession and future uncertainty about the business situation here do not suggest that any significant inflation could arise from an exchange adjustment. If the price of gold were increased, it would command a greater real value and so would the other currencies that maintained their present gold prices. This would also help ease the problem of the failure of the gold stock to increase in proportion to production and world trade. It seems clear that in the end we and our world could much better withstand the emotional storm evoked by devaluation than the consequences of alternative policies.

An Enduring Maladjustment

If the reader feels this to be a controversial position, we hope he will at least agree that the issues ought to be thrashed out. The first thing to determine is whether an enduring maladjustment has arisen. Over a year ago, in November, we suggested that comparative price studies be undertaken with a view to making such a determina-

(Continued on page 8)

THE RAILROAD INDUSTRY

Few developments had as much influence on the growth of this nation during the nineteenth century as the development of the railroad industry. Not only did it perform a major economic role in making regional and national markets available to a burgeoning industrial nation, but it also played a key part in welding the western states to the Union.

In the two decades after the first public railroad was opened in 1830 the routes that sprang up were primarily local feeder-lines to nearby waterways. After 1850, with the stimulation of federal land grants and growing recognition of the potential of railroads, the pace of railroad expansion was stepped up and transcontinental routes were created by mergers of shorter lines and concentration of new trunk lines. The 2,800 miles of track in 1840 grew to 31,000 miles by 1860 and increased almost every year thereafter until a peak of 254,000 miles was reached in 1916.

Transportation Giant

Although the railroad industry has experienced a shrinking share of total transportation volume through much of the present century, it remains the behemoth of the nation's various commercial transportation systems. Illustrating its huge size is the fact that in 1959, despite the prolonged steel strike, more than 2 billion tons of freight were hauled a total of nearly 582 billion ton-miles. This was nearly half of the national intercity total of freight transportation. In addition, 352 million passengers were carried about 22 billion intercity passenger-miles, accounting for more than one-fourth of total for-hire passenger traffic.

Today most railroads are interstate carriers and are designated either as Class I (annual operating revenues exceeding $3 million) or Class II lines. The 109 Class I carriers dominate industry activity, obtaining nearly 99 percent of total railroad operating income and volume. Moreover, just 40 of these accounted for 90 percent of the $10 billion operating income in 1959.

About 85 percent of the $9.8 billion in operating income by Class I roads in 1959 came from freight. Passenger income accounted for 7 percent; mail, 4 percent; express, 1 percent; and miscellaneous, 4 percent.

Industry Problems

Of the numerous problems that perplex the industry today, two are outstanding: (1) the railroads' loss of market shares to newer, more versatile conveyors, and (2) the industry's difficulty in controlling the rising costs of a huge fixed investment in the face of gradually contracting traffic. A part of the industry's ills stem from a failure of companies, especially before 1940, to compete aggressively with the newer modes of transportation arising after 1920. On the other hand, costly union agreements, which raise the issue of "featherbedding," or mandatory employment of personnel held to be unneeded, and regulatory restrictions, such as the sustained operation of deficit runs, have been largely beyond industry control.

Burdened with heavy fixed charges, high operating costs, and inadequate revenue, the industry has attempted to achieve economies by spending a larger proportion of postwar income on more efficient equipment. Most important of these cost-saving efforts has been a nearly complete conversion to diesel power, an undertaking which has halved annual fuel costs since 1946 and has brought about incidental savings in the form of greater payloads and increased train speed. Other technological improvements include the addition of centralized traffic control systems, greater mechanization of roadway maintenance, and more efficient classification yards.

World Railroad Capital

Illinois has been the nation's railroad center for a century. The first steam locomotive in the State — "The Rogers" — was put in operation in 1838, but not until the 1850's did railroading mushroom in Illinois. In the decade before the Civil War more than 2,679 miles of track were laid, bringing the Illinois total by 1860 to 2,790.

Chicago, with eleven roads ending there, became the nation's largest terminal by 1860, only twelve years after its first tracks were laid. Today, the city is the world's largest rail center and daily serves some 30 railroads. Nearly 7,900 miles of line-haul and switching track are located in the city's terminal district, which consists of 1,750 square miles. Railroad shops and major installations are found in 41 downstate cities and villages.

A total of 29 Class I lines and 3 Class II lines operate in Illinois today on more than 11,200 miles of track. The state's longest railroad is the Illinois Central, which has more than a third of its 6,500 miles of track here. Other companies with large amounts of trackage in Illinois include the Chicago, Burlington & Quincy, the Chicago and North Western, the Gulf, Mobile and Ohio, the New York Central, and the Wabash. In addition to the 32 operating roads, there are 25 switching and terminal companies active in the State. Altogether, the railroad industry here employs nearly 93,000 persons, or about one-ninth of the national total.

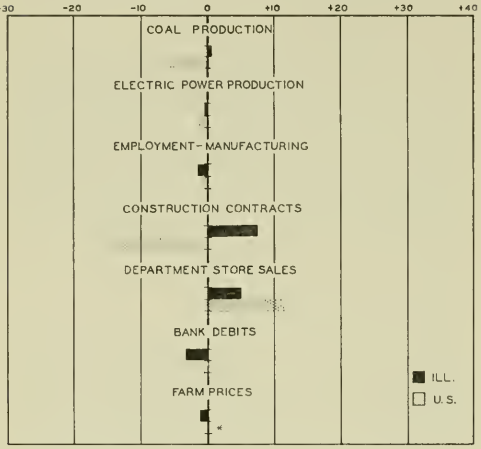
Nearly 87 million tons of rail freight originated in Illinois last year, and 96 million tons terminated here. The major commodity carried by the state's railroads, as is true nationally, is coal. It makes up more than a third of the total tonnage in Illinois. Important groups of commodities besides minerals carried are manufactures and agricultural products, which amount to about 26 percent and 17 percent, respectively, of total Illinois tonnage.

As a primary carrier of bulk cargo, the railroad industry's future position will be strongly affected by the economic movements of a few important markets, such as steel, coal, and durable goods. However, the industry with its postwar improvements in technical efficiency has improved its potentiality to compete more effectively with other types of transportation. Also, the adoption of new innovations and services, such as "piggybacking," and possible expansion of supplementary water and motor carrier service could further strengthen its position.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes October, 1960, to November, 1960



* No change.

ILLINOIS BUSINESS INDEXES

Item	Nov. 1960 (1947-49 =100)	Percentage change from Oct. 1960	Percentage change from Nov. 1959
Electric power[1]	243.5	− 0.5	− 0.2
Coal production[2]	86.0	+ 0.7	− 2.9
Employment—manufacturing[3]	96.7	− 1.5	− 4.6
Weekly earnings—manufacturing[3]	172.0[a]	− 0.3	+ 2.7
Dept. store sales in Chicago[4]	119.0[b]	− 8.5	− 4.8
Consumer prices in Chicago[5]	130.5	− 0.2	+ 1.1
Construction contracts[6]	364.2	+ 7.5	+33.2
Bank debits[7]	214.2	− 3.3	+ 7.9
Farm prices[8]	80.0	− 1.2	+ 5.3
Life insurance sales (ordinary)[9]	317.0	+ 6.5	+ 6.0
Petroleum production[10]	124.8	+ 7.7	+ 7.6

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Data for October, 1960, compared with September, 1960, and October, 1959. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Nov. 1960	Percentage change from Oct. 1960	Percentage change from Nov. 1959
	Annual rate in billion $		
Personal income[1]	409.5[a]	0.0	+ 5.4
Manufacturing[1]			
Sales	350.4[a]	− 1.4	0.0
Inventories	54.0[a, b]	− 0.7	+ 4.9
New construction activity[1]			
Private residential	22.3[c]	− 4.3	−12.1
Private nonresidential	18.2[c]	− 1.9	+ 9.9
Total public	17.1[c]	− 9.7	+15.6
Foreign trade[1]			
Merchandise exports	20.9[d]	+ 8.3	+17.7
Merchandise imports	13.9[d]	− 0.3	− 3.7
Excess of exports	7.0[d]	+30.4	+109.8
Consumer credit outstanding[2]			
Total credit	54.6[b]	+ 0.8	+ 8.4
Instalment credit	42.7[b]	+ 1.2	+10.3
Business loans[2]	36.5[b]	+ 0.8	+18.3
Cash farm income[3]	48.0[d]	+18.8	+ 2.6
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	105[a, e]	− 1.9	+ 1.9
Durable manufactures	99[a, e]	− 2.0	+ 3.1
Nondurable manufactures	112[a, e]	− 0.9	+ 0.9
Minerals	96[a, e]	0.0	0.0
Manufacturing employment[4]			
Production workers	97	− 0.6	− 1.6
Factory worker earnings[4]			
Average hours worked	98	− 0.8	− 1.5
Average hourly earnings	174	+ 0.4	+ 3.6
Average weekly earnings	171	− 0.3	+ 2.0
Construction contracts[5]	253	−13.0	+21.6
Department store sales[2]	142[a]	− 5.3	− 2.7
Consumer price index[4]	127	+ 0.1	+ 1.4
Wholesale prices[4]			
All commodities	120	0.0	+ 0.6
Farm products	90	+ 0.4	+ 5.3
Foods	109	+ 0.1	+ 4.0
Other	128	− 0.2	− 0.5
Farm prices[3]			
Received by farmers	89	0.0	+ 4.7
Paid by farmers	119	0.0	+ 0.8
Parity ratio	81[f]	0.0	+ 3.8

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for October, 1960, compared with September, 1960, and October, 1959. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1960					
	Dec. 31	Dec. 24	Dec. 17	Dec. 10	Dec. 3	Jan. 2
Production:						
Bituminous coal (daily avg.)—thous. of short tons	1,323	1,258	1,223	1,246	1,221	1,465
Electric power by utilities—mil. of kw-hr.	13,956	15,114	15,021	14,604	14,368	13,565
Motor vehicles (Wards)—number in thous.	103	134	153	158	159	130
Petroleum (daily avg.)—thous. bbl.	7,173	7,139	7,132	7,152	6,984	7,068
Steel—1947-49 = 100	64	77	80	81	81	158
Freight carloadings—thous. of cars	406	468	486	518	523	483
Department store sales—1947-49 = 100	117	319	305	296	231	112
Commodity prices, wholesale:						
All commodities—1947-49 = 100	119.6	119.5	119.4	119.5	119.6	118.9[a]
Other than farm products and foods—1947-49 = 100	127.9	127.9	127.8	127.9	127.8	128.6[a]
22 commodities—1947-49 = 100	81.5	81.5	81.8	82.8	83.3	83.2
Finance:						
Business loans—mil. of dol.	31,958	32,131	31,783	31,550	31,749	30,465
Failures, industrial and commercial—number	276	253	351	360	290	226

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for December, 1959.

RECENT ECONOMIC CHANGES

Auto Output Second Highest

Passenger car production in the United States in 1960 totaled slightly under 6.7 million units — about 1.1 million units, or 20 percent, above 1959. Last year's output was the second highest in history, exceeded only by 1955 production of nearly 8 million cars.

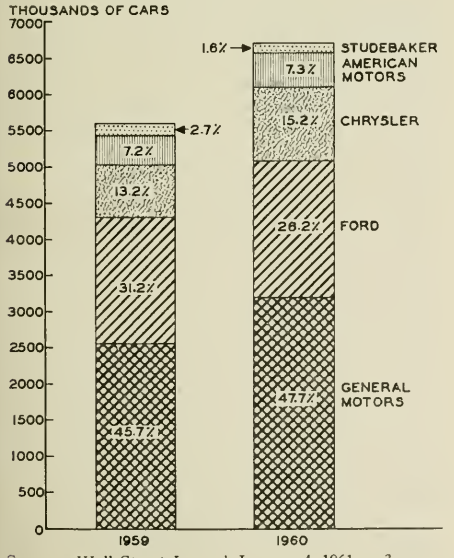
Two notable developments within the industry in 1960 were the demise of the DeSoto line and the continued upsurge of the compacts. During the year production of compact cars passed the 1.9 million mark and accounted for 29 percent of total industry output, compared with 755,000 units and 13.5 percent in 1959. A further indication of the growing acceptance of the compacts was the fact that, among individual makes, two compact cars — Ford's Falcon and American Motors' Rambler — placed third and fourth in output, surpassed only by Chevrolet and Ford.

Total car assemblies, along with the relative shares of total output achieved by each company for 1959 and 1960, are shown in the accompanying chart.

Industrial Production Lags

The Federal Reserve Board reported industrial production in November fell 2 points below the October rate to 105 percent of the 1957 average, the lowest output since November, 1959. A key factor in the latest decline was a sharp reduction in auto production during the month. From an October mark of 123 percent, the FRB's index of auto output skidded to 109 percent. Combined with decreases in the production of such items as clothing, appliances, and television sets, the drop in car output pulled the total production index for finished consumer goods below 113 percent in November, from 114 percent in the preceding month.

AUTO PRODUCTION



Source: *Wall Street Journal*, January 4, 1961, p. 3.

Contributing to the decline in the over-all index of industrial production in November was a further slowdown in steel operations from 73 percent of the 1957 average in October to 71 percent, the lowest in thirteen months. Textile production also decreased during the month, while output of mines and utilities showed little change.

Record Crops in 1960

American farmers brought in the biggest harvest in the nation's history last year. The Agriculture Department's final tabulation of crop output for 1960 showed the index of production hit 122 (1947-49 = 100), up 4 points from the previous record set in 1958. At the same time, the agency reported that the record harvest was accomplished on 329 million acres, about 6 million less than in 1959 and the fewest since 1916.

Production of almost every key crop advanced during the year with several setting new records for both total volume and yields per acre. Corn production, on a yield of 53 bushels per acre, reached 4.4 billion bushels in 1960, compared with 4.3 billion in 1959, while wheat output increased 20 percent to 1.4 billion bushels. Other gains in production over 1959 were 9 percent each for sorghum grains and tobacco; 5 percent for soybeans; and 2 percent for rice.

Although farmers produced record volumes in 1960, early estimates by the department indicate that the value of last year's crop output was less than in 1959.

Year's Construction Down

The total value of new construction put in place during 1960 dropped about 2 percent from the record $56.2 billion in 1959. The Census Bureau's latest estimate of $55 billion for 1960 fell a bit short of earlier government predictions for the year.

Both public and private construction expenditures decreased during the year. Spending on public construction fell from $16.3 billion in 1959 to $16.1 billion last year, mainly because of a 4 percent decline in highway outlays. In the private sector the most significant change was a 10 percent drop in the value of private residential building from $24.5 billion to $22.1 billion. This reduction was only partly offset by a $1.1 billion gain in private nonresidential building. As a result, total expenditures for private construction in 1960 came to $39 billion, 2 percent under the previous year.

Unemployment Climbs

About a half-million workers were added to the nation's total of unemployed during December. The increase over November was three times the normal seasonal advance for the month. As a result, the seasonally adjusted rate of unemployment jumped to 6.8 percent of the civilian labor force, the highest December rate since 1940.

Labor Department data, in thousands of workers, are as follows:

	Dec. 1960	*Nov. 1960*	*Dec. 1959*
Civilian labor force	70,549	71,213	69,276
Employment	66,009	67,182	65,699
Agricultural	4,950	5,666	4,811
Nonagricultural	61,059	61,516	60,888
Unemployment	4,540	4,031	3,577
Seasonally adjusted rate	6.8	6.3	5.5

AMERICAN AID TO UNDERDEVELOPED COUNTRIES

JOSEPH L. McCONNELL, Associate Professor of Economics

The people of the United States constitute only about 7 percent of the world's population but they own most of the world's wealth and have an inordinate share of its income. Our per capita income is now above $2,000 a year and growing steadily. The people of Africa and the teeming hundreds of millions who populate Asia and constitute the bulk of the world's population have per capita incomes which are mostly in the range of $40 to $75 a year, or roughly 3 percent of the average income of Americans. Even the industrial countries of Western Europe have incomes averaging only a quarter to a half of ours.

Several events have transpired in the past forty years which give special significance to the unique position of wealth and power occupied by this country. The Communists have brought the Soviet Union to second position in industrial production and to at least this rating in military power. Operating under an ideology which demands the indefinite extension of their system, they are a direct rival in world power already and threaten to extend their sway to the underdeveloped world.

Concentrations of wealth within any political system are protected by constitutions and statute law. But in the realm of world politics there is no such codification of law or common agreement on proper economic relations among the nations. A world coalition of underdeveloped economies under Communist leadership could create a climate hostile to and even destructive of our system of political freedom under law. It is our hope that the economic development of the backward areas can be brought along at such a rate that their own disposition to national self-determination will enable them to escape the domination of international Communism until they can learn a form of self-government that operates with the consent of the governed. So long as voting by country or voting by head are the accepted concepts for determination of relative power in international government, the United States, being but one country with only one-fifteenth of the world's population, must depend on the dispersion of political power in the world for impartial and friendly decisions.

Where Our Aid Goes

In these facts lies the political basis for our foreign aid programs. Very likely the political conflict situation reduces the effectiveness of these programs. This is shown by the distribution of the aid provided.

Americans read of foreign aid, foreign loans, grants to this and that, and have trouble figuring out not only how much it costs them, but where it is going. In the first eleven years after the end of World War II we spent $57 billion in foreign assistance. Fifty percent went for rebuilding the industrially developed countries. They were able to use large amounts and, strategically, they were most important. Thirty-two percent of the total went in grants of military equipment. Six percent was paid out in relief grants. The remaining 12 percent was economic development assistance, divided about equally between 7 strategic spots on the fringe of the Communist world and 75 underdeveloped countries not so strategically located. Our African and Latin American programs began in 1952 and have grown to the point where they were receiving roughly 10 to 20 percent of ICA's non-European expenditures in the last third of the 1950's.

In fiscal 1960 our Development Loan Fund and International Cooperation Agency expenditures for economic development assistance amounted to about $1.8 billion. About 45 percent of this went to militarily strategic countries of Asia. Most of the rest went to the Asian area also. Only 12 percent of the total went to Africa and Latin America together.

When the world economic picture as a whole is considered, it appears that our aid programs need to be diversified and expanded to a more balanced coverage of the entire underdeveloped world. Such a shift would not eliminate Communist penetration into new areas. There would continue to be trouble spots like Cuba, Laos, and the Congo. But the advantages now enjoyed by the Soviet Union would be minimized.

Soviet Advantages in Undeveloped Areas

The specific nature of our rivalry with Communism in the economically undeveloped areas has certain aspects which deserve to be recognized by Americans as playing an important part in limiting our success. Karl Marx aimed at the destruction of the capitalistic aspect of the most industrialized nations, but Communism's function in the world has turned out to be the forced-draft industrialization of the landlord-ridden backward nations. It has used the industrial technology of capitalism in its own development and has, in a third of a century, brought the most backward of the large nations (relative to its population-resource potential) from one-tenth of United States industrial production to one-half while we were not standing still ourselves. This example does not go unnoticed in the underdeveloped world.

Secondly, Russia never had an Asian or an African colony, a fact which affects favorably their relations with people of color and will continue to have great influence for some time. What has happened in Tibet or Hungary seems of no consequence when a nation is desperately striving to explain its poverty in terms of racial exploitation. Almost all of Europe outside of Russia plus the United States is stigmatized in the eyes of the former colonials for having had Asian or African colonies.

A third feature of the Soviet relation with the undeveloped countries is that they come not as superiors, bringing charity in the form of free grants to inferiors. They come to trade: a steel mill for shoes or cotton. In effect the Russians say "You have something we want." This is a tremendous source of dignity for those who are struggling for status in the family of nations.

If ICA were to negotiate capital grants to underdeveloped areas to be paid for in imports of light manufactures not easily salable in world markets, it would be an act of bad faith, damaging to the interests of owners of American factories producing these commodities and particularly injurious to workers and their families. Here, where such goods are already available, such imports would displace workers and hamper our efforts to maintain full employment generally. In contrast, Soviet industry is socially owned and extremely short of consumer goods. Although their total industrial product is one-half that of our economy, their workers are paid only about one-fifth the wage of American workers and regularly have trouble getting their wages spent. Thus the Soviet Union can take great quantities of raw materials and light manufactures with no burden to themselves.

Characteristics of Underdeveloped Areas

Although a realistic view of our position is desirable,

it should also be recognized that the economic problems of the underdeveloped countries are recalcitrant and cannot be readily solved by either the Communist approach or by ours. These countries are overpopulated, deficient in accumulated capital, and backward in literacy and technical skills. They are also strikingly dependent on primary production. That is, they depend for the generation of their national income and finance of government on one, two, or three products of agriculture, forestry, or mining. Consequently, small cyclical swings in the industrial countries which buy these raw materials, magnified by stockpiling or stock-liquidation, inflict on these primary producers catastrophic fluctuations in national income and employment, in government revenues, and in foreign exchange from goods exported.

In the long run the purchasing power of these raw materials when exchanged for manufactured goods of other countries seems not to increase, but only to decline. That is to say, the underdeveloped countries find their terms of trade worsening. It is to escape the vicious circle of poverty, capital deficiency, product specialization, and cyclical vulnerability that the economic development programs have been instituted.

Much of the capital equipment and technical aid for a development program must come from outside the country and must be paid for in foreign currencies obtained from exports, foreign capital and grants, or borrowing. This is the point at which our aid program enters the picture.

To utilize such aid, a substantial part of the cost of the program must be raised by mobilizing savings inside the country to pay for domestic labor and raw materials used in capital construction. Adequate cost-of-living goods — chiefly food in an extremely poor country — delivered where the workers of the development projects are employed is the critical problem of any substantial development program.

The Race to Beat the Birth Rate

The more gradual non-Communist development program, if it is to be more than a superficial augmentation of raw material export facilities, must be based on rural community development for greater productivity in agriculture. Improved general education, instruction in agricultural techniques, better implements, and improved seeds and breeding stock are representative parts of such a plan. But this is not the end. A humanitarian program consisting of health education, sanitation, purification of water, spraying for fly and mosquito control, and instruction in child care must be included in the development program regardless of the consequences in lowered death rate. Population explosion is the result.

Speculation about the early history of Eastern countries indicates that they have probably had a high birth rate for a long time. Before contact with the West in the colonial relationship, famine and epidemics apparently swept through once a decade or so and carried away a third or more of the population. In the colonial period food transportation from surplus to deficit areas in times of local famine and use of quarantine regulations in a gross way allowed many populations to grow.

With birth rates maintained, lower death rates sharply accelerate the growth. For some years population growth rates of 1½ percent based on births of 45 per thousand and deaths of 30 had been typical and have furnished the basis for the calculation of capital needs to promote growth in per capita income. More recently it is becoming apparent that the falling death rates in consequence of the development programs have raised the population growth rates to 2½ or 3 percent and even more.

Thus the development programs themselves generate a population problem of a magnitude never before contemplated. Beginning to run has made it necessary for them to run faster. No small effort is needed. A solution to the problem of the high birth rate seems to many to be the only way out of this difficult situation.

Our Potential Contribution

The United States has the resources to make a great contribution to the development efforts of the eighty-odd independent countries which are bent on solving their economic problems. It is commonly estimated that the marginal capital to output ratio in the early stages of development is 4 to 1. That is, $4 of net capital formation is required to yield an annual increase in output of $1. If population is growing at 3 percent per year then output must grow at 3 percent if a decline in per capita income is to be prevented. This requires net saving and investment equal to 12 percent of the national income.

In the early 1950's, before the first Five-Year Plan could have had any effect, India was estimated to be saving 4 percent of its national income. At the end of the first plan, the rate was up to 7-9 percent. In Latin America average net saving and investment has been estimated to have been at 12 percent in the last decade, enough to provide a small gain in per capita income. However, this rate of capital formation has been achieved partly by a high demand for minerals in the industrial countries which may not continue secularly.

Since 1957 our own growth rate has fallen below that experienced earlier and sharply below the postwar period to 1957. We can imagine circumstances where a greater lag could occur, calling for even larger capital exports. For example, if a disarmament agreement is concluded, we will face the problem of spending $40 billion on something other than armaments and may be driven to expanding foreign development programs in a desperate attempt to maintain employment at home.

Even apart from such special circumstances, it seems clear that we could do much more. Our present contribution of under $2 billion a year is only 5 percent of our current rate of expenditure on military personnel and equipment. It is less than one-half of 1 percent of the national income. Increasing the aid program would help stimulate our own growth.

Foreign private investment originating here is running under a billion dollars a year and is this high only because of oil investments. As a percentage of our national income, our foreign investment rate is only one-thirtieth of that achieved by Britain before World War I. Moreover, there are many reasons why private foreign investment in the underdeveloped countries cannot be expected to do more than a small part of the job. These former colonials are shy of private capitalists and 30 percent returns to foreigners. The whole climate is one in which an entrepreneurial class has failed to arise and do the job and which, therefore, may seem to require nationalization of industry including foreign-owned enterprises. Finally, the need is often for social overhead capital of kinds which in the nature of the situation will not yield a profit. The bulk of the problem must be solved by public capital grants to countries with sound development plans.

If the new Administration is really looking for a new frontier it should not overlook the chance to promote economic development in Asia, Africa, and Latin America in the face of the population explosion.

Let's Talk About Devaluation

(Continued from page 2)

tion. If anything of this kind has been done, it has not come to our attention.

In the meantime, scattered evidence to support the need for exchange adjustment has appeared. In a recent statement, Roger Blough, chairman of the board of U.S. Steel Corporation, said: "In the steel industry, our hourly wage rates range from three to seven times as much as those paid to steelworkers in various countries overseas. . . . In the past we were able to cope with this employment cost handicap chiefly by reason of our advanced technology. . . . But today our competitors abroad are building plants and facilities that are just as modern and productive as our own and their operations are becoming more efficient, too."

Yntema of Ford also supports his plea for flexibility in economic adjustments among nations with data: "From comparative cost studies, I know that costs of direct labor in comparable automotive operations are about one-third as high in England and Germany as in the U.S. and that they are still lower in Italy." He points out that in other elements of cost, the advantage abroad is smaller, or in some cases, a disadvantage exists, but this does not eliminate the basic disparity. "Furthermore," he goes on, "foreign production will obtain additional advantages as the scale of operations increases and as improvements are made in supplier industries."

The processes by which low costs are converted into product prices and market shares are well understood by businessmen. This potential spreading of competitive disadvantage is not confined to the steel and auto industries but may ultimately affect any part of the industrial product spectrum.

In the light of such facts, it seems reasonable to conclude that the deficit in our balance of payments is not temporary. Foreigners who can buy more cheaply elsewhere do not seek our goods so avidly and may be inclined for a while to add to their gold and dollar reserves. This imposes an additional deflationary force on the domestic economy and impedes the recovery needed to restore the world-wide confidence that alone can ensure against massive withdrawals of liquid funds.

Here, too, Yntema's statement of the situation compels agreement: "We are not confronted by liquidity crisis now nor are we in any immediate danger of being confronted by such a crisis. I submit, however, that we do not know how to avoid such a crisis, should it threaten, by means that are compatible with our objectives as leaders of the free world."

We are inclined to add, under these circumstances, that the brief gold panic of last October, though of little importance in itself, may turn out to be the first rumbling of the earthquake. We cannot keep the house from shaking by pulling the bed covers up over our heads.

Some Unattractive Alternatives

The Eisenhower Administration has already made some moves to reduce the balance-of-payments deficit. The programs to stimulate exports by providing business services and by reducing trade barriers should be helpful as far as they go. They were discussed here last July. More recent efforts have turned toward reducing expenditures abroad. These are of more doubtful value, since military and foreign aid programs should not depend on gold flows; this is not to say that existing programs are fully justified, but merely that they should be determined independently. Moreover, transfer of foreign aid programs to other industrial countries will tend to accelerate the loss of markets we are already incurring.

The main alternative policies that might be adopted to balance our international payments are deflation and protectionism, and these would lead us into the unpardonable sin of permitting a further drift toward depression. This is the real path to disaster. A business slump here will pull the rest of the Western world down with us — industrial and underdeveloped countries alike — and promote the ultimate defeat of all our aspirations.

We cannot keep our goods competitive by deflating industrial prices and costs because that could be accomplished only in deep depression. Stagnation has already put severe pressure on private fixed investment. Yet we have so far rejected the stimulus of easy money because lower interest rates might speed the outflow of gold. The net "easing" of bank reserves through Fed action amounts to only $1 billion to date. The banks have been doing their best to stand pat on interest rates and have kept even that minimal shift from reducing rates by increasing their net free reserves correspondingly. Up to this point monetary policy has provided hardly any assistance to halting the decline.

A widely held view is that the government can counter the recession by means of fiscal policy alone. There can hardly be any quarrel with this in principle, but as a practical matter this easy solution fails to take account either of the magnitude of potential deflationary forces or of institutional limitations on getting things done. With 7 percent of the labor force unemployed, one thing is sure: any unnecessary depressants should be avoided.

That is another reason why protectionism should be ruled out. The usual objection to tariffs and other import restrictions is that they would bring retaliation and wipe out all the gains won for free trade over the last quarter-century. What is not so well understood is that the drying up of trade would depress domestic activity in all the countries affected. The pressure to reduce business investment which is now being experienced in this country would be intensified by any loss of export markets. Building trade barriers is just another policy for pushing us deeper into a cumulative slump.

It should also be noted that recession and protectionism are mutually interacting. When business declines, demands for protection are intensified; the whole blame is then often put on "excessive low-cost imports." Senator J. K. Javits (R., N.Y.) recently stated that the new Administration faces a major struggle over protectionism. He cited reasons to show that the threat of an "old fashioned tariff and quota wall" represents a real danger to our international position as well as to our own economic well-being.

We cannot afford the depression that would be engendered by measures of deflation and protection. The economy is already burdened too much by the deflationary effects of the adverse balance of payments and its concomitant high-interest-rate policy. Some measures now in effect or proposed will help, but it is doubtful that they can suffice to compensate for a basic disadvantage in costs.

So let's talk about devaluation. Discussing it with all concerned should serve to bring rationality to bear on the problem, and it might even turn out to be the least disadvantageous solution. The time to take up the question is now, when the surplus countries are enjoying full prosperity and there is hardly any unemployment problem abroad to be aggravated by exchange rate adjustments.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Canada Ups Taxes on American Investors

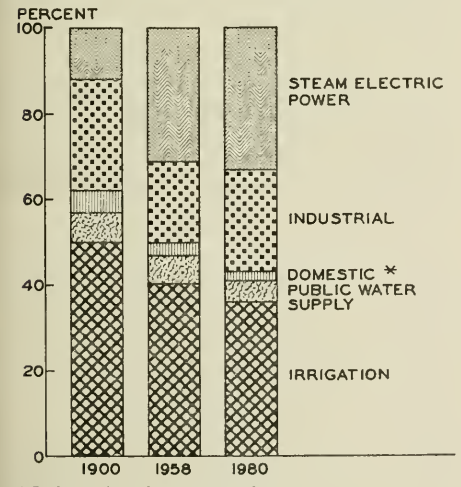
The emergency budget just presented to the Canadian Parliament calls for changes in the country's tax code which will raise taxes on the earnings of United States investors in Canadian business by $50 million a year. The budget proposes an increase in the tax rate from 5 percent to 15 percent on dividends that are received by foreign parent companies from their wholly owned subsidiaries. A special tax of 15 percent will be placed on the income derived from branches of foreign corporations doing business in Canada. Also, the withholding tax will be raised from 5 percent to 15 percent on income earned by foreign investors on their Canadian stocks and bonds.

In order to offset any dampening effects on the Canadian economy that may result from a reduction in foreign investment coming into the country, tax incentives are being offered to domestically owned businesses. For example, the ceiling for the minimum 21 percent tax rate on annual corporate earnings has been raised from $25,000 to $35,000. Companies which develop new products are allowed double depreciation for one year on the capital expenditures made. The same allowance is made to businesses which locate in chronically depressed areas.

Marital and Family Characteristics

Data released by the Bureau of the Census indicate that the number of married couples in the United States increased from 36 million in 1950 to about 40 million in 1960, a gain of 11 percent. At the same time, the total population of the country rose 19 percent. The reason for the substantial difference between these two rates of growth is that the increase in total population was concentrated among children and elderly persons, whereas the number of young adults advanced less rapidly.

DISTRIBUTION OF WATER USES



* Self-supplied; farm and nonfarm.
Source: National Industrial Conference Board, "Road Maps of Industry," No. 1304, December 23, 1960.

In 1960 the median age at first marriage for men was slightly below 23 years and for women slightly above 20 years. It has declined by over 3 years for men and by almost 2 years for women since 1890, with the greatest declines occurring during the decade of the 1940's. Between 1950 and 1960 it remained relatively constant for both men and women.

The average size of families in the nation, excluding Alaska and Hawaii, was 3.68 persons in 1960. This is somewhat greater than that in 1950 but still below the 3.76 persons per family reported in 1940. The number of persons under 18 years of age increased to 1.42 per family in 1960. On the other hand, the average number of family members over 18 years of age declined to 2.26 persons last year.

Cigarette Sales Up

According to estimates published in *Business Week*, cigarette sales in 1960 totaled 476 billion, approximately 20 billion or 5 percent more than in the previous year. The retail dollar volume also set a new record of $6.6 billion, a gain of about $500 million over 1959. Cigarette sales declined very sharply following the cancer scare in the early 1950's, but they have climbed steadily for the last six years, with the last four years setting yearly records. In 1960 sales of all types of cigarettes except regulars increased over 1959 sales. Menthols increased 23 percent, filters 5 percent, and kings 4 percent.

Preferences among the types of cigarettes continued to follow the pattern established during the past few years. For the first time, filter cigarettes, including mentholated ones, captured more than 50 percent of all cigarette sales; ten years ago they comprised less than 1 percent of the total market. Regulars accounted for 28 percent of all cigarettes smoked and kings made up about 20 percent of the 1960 market.

Use and Management of Water

The total volume of water used in the United States has been rising very rapidly during the present century. In 1900 the daily average requirement of water was about 50 billion gallons. In 1958 the number of gallons of water consumed daily amounted to 300 billion, and by 1980 an estimated 500 billion gallons will be used daily.

At the start of this century about 50 percent of the nation's water was used for irrigating land and 25 percent for industry. In 1958 irrigation still remained the largest user of water with 40 percent of the total gallonage, steam-electric power had moved up to second place with 30 percent, and industry's share had dropped to 20 percent (see chart). By 1980 it is expected that about one-third of the water will be used for irrigation purposes, one-third for steam-electric power, and the remaining one-third for industry and public consumption.

Because water has been readily available in most parts of the country, little effort has been made to harness and manage it with an eye to meeting future needs. Much of our water is polluted as a result of this lack of public concern. Among the problems of water management being studied by the experts are improving storage facilities, converting salt water into high-quality water, improving methods for transporting water to arid localities, improving flood protection, reducing the causes of pollution, and improving the facilities for treating polluted water.

LOCAL ILLINOIS DEVELOPMENTS

Most major indexes of Illinois business continued their downward movement in November, with a few notable exceptions. Seasonally adjusted department store sales in Chicago dropped 9 percent, and most of the other indicators declined slightly from the previous month's level. Construction contracts and petroleum production each increased 8 percent, and life insurance sales rose 7 percent during the period.

Conservation Program in Illinois

According to the State Agriculture Stablization and Conservation Committee, the federal government has allocated $15.8 million to Illinois for its 1961 farm conservation programs. This figure includes $8.8 million for the Agricultural Conservation Program and $7.0 million for the Conservation Reserve Program.

The ACP, which was set up for the improvement of farm land, includes for 1961 such projects as sod waterways, terraces, farm ponds, contour strip-cropping, and pasture development. The federal government pays up to 60 percent of the cost of such projects on individual farms, with the remainder being supplied by the farmer. The CRP is the old soil bank program and applies to those farmers who signed five- or ten-year agreements during the soil bank's operation from 1956 through 1959.

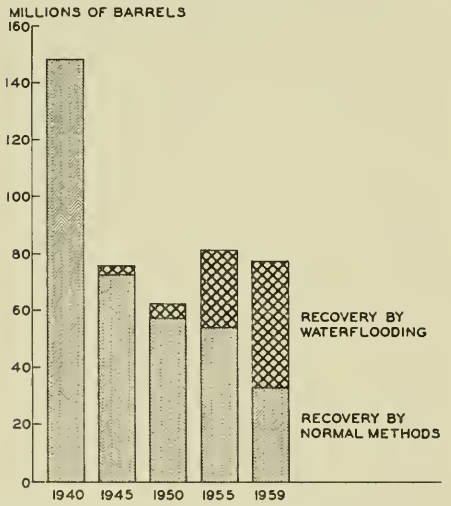
In 1960 there were nearly 50,000 farms in the State participating in the ACP and 6,000 in the CRP. The counties receiving the largest allotments for ACP practices in 1960 were McLean ($207,000), La Salle ($178,000), and Iroquois ($172,000).

Industrial Development Financing

The Illinois State Chamber of Commerce recently released the results of its survey conducted last November on the local industrial development financing offered to incoming businesses by communities in Illinois. The report shows that local supplemental financing efforts to attract new industry vary widely. They range from small loans to outright gifts, which cover part or all of the cost of such items as land, buildings, machinery, or moving expenses. The money for loans and gifts is raised in such ways as donations, sales of stock in corporations, and receipts from municipal sales tax levies. Most cities engaging in industrial development financing are found to offer loans on fairly liberal terms.

The report further indicates that some form of financial inducement to new industry is found in all sizes of communities in nearly all parts of the State. As would be expected, the most enthusiastic supporters of programs to attract new industry are concentrated in smaller or medium-sized cities which are in need of new industrial payrolls. The ability to raise money for industrial development appears to vary inversely with the level of prosperity in a community.

ANNUAL OIL PRODUCTION IN ILLINOIS



Source: Illinois State Geological Survey, *Petroleum Industry in Illinois, 1959*, Bulletin 88, p. 81.

The 1961 Highway Program

According to data released by the Division of Highways of the State Department of Public Works and Buildings, funds totaling $256 million are proposed for the 1961 primary highway program in Illinois, almost $29 million more than last year. This program consists of $181 million for construction and right-of-way acquisition of the Interstate Highway System and $75 million for improvements on other primary but non-interstate highways. The federal government is supplying about $161 million for these improvements; $60 million is to come from state and local sources and $35 million from the Cook County bond issue.

The total estimated cost of projects listed for the ten Illinois highway districts for 1961 amounts to $323 million, or $67 million more than funds available. Projects in District 10 (Cook County) have an estimated cost of $138 million, with construction on Interstate 94 accounting for 60 percent of this amount. About $40 million of construction is planned on Interstate 57, a north-south route connecting Chicago with Cairo. Another major highway construction project is located in the northern part of the State, where an estimated $31 million is to be spent on Interstate 80.

Petroleum Production

A recent Illinois State Geological Survey report, *Petroleum Industry in Illinois in 1959*, states that Illinois ranked eighth among the oil-producing states in the United States, accounting for 3.1 percent of the nation's oil production. In 1959, Illinois oil output declined to 76.7 million barrels, a decrease of 5 percent from the 80.8 million barrels produced in 1958.

In 1940 oil production in the State reached its record high of 147.6 million barrels. After 1940, it declined steadily until 1954 and 1955, when it made modest gains. Between 1955 and 1959 the continued expansion of secondary recovery operations held production firm in spite of a decrease in drilling activity and lack of significant new oil pool discoveries.

Although total petroleum production is down from the 1940 level, water flood oil production has continued to expand, totaling 43.8 million barrels in 1959, or 57 percent of the state's total oil output (see chart). Since 1942, when this method of increasing oil production began to be used in Illinois, there has been a rapid growth in waterflood projects. During the last ten years, the number has advanced about 700 percent to a total of 499 projects in 1959.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

November, 1960

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$51,708[a]	1,216,698[a]	$566,642[a]		$18,721[a]	$19,043[a]
Percentage change from	Oct., 1960	+18.5	−0.9	+6.0	+5	−3.3	−3.1
	Nov., 1959	+170.2	+2.3	−4.4	−1	+7.9	+6.2
NORTHERN ILLINOIS							
Chicago		$25,757	884,289	$412,522		$17,228	$16,645
Percentage change from	Oct., 1960	−23.0	−1.5	+7.3	+5	−3.2	−4.0
	Nov., 1959	+86.5	+0.9	−4.7	−1	+8.3	+5.2
Aurora		$ 1,955	n.a.	$ 9,574		$ 83	$ 159
Percentage change from	Oct., 1960	+40.4		+8.1	−1	−0.4	−3.0
	Nov., 1959	+447.6		+2.2	−5	+7.3	+2.3
Elgin		$ 312	n.a.	$ 6,317		$ 52	$ 156
Percentage change from	Oct., 1960	−38.0		+12.0	n.a.	+1.2	+6.2
	Nov., 1959	+86.8		−2.9		+12.5	+25.8
Joliet		$ 489	n.a.	$10,541		$ 88	$ 117
Percentage change from	Oct., 1960	+8.7		−3.8	−7	−3.7	+5.5
	Nov., 1959	+88.1		−4.6	−14	+5.7	+9.5
Kankakee		$ 257	n.a.	$ 4,983		n.a.	$ 66
Percentage change from	Oct., 1960	+4.9		+1.5	n.a.		−17.5
	Nov., 1959	+252.1		−1.5			−12.3
Rock Island-Moline		$12,072	25,908	$10,872		$ 126[b]	$ 235
Percentage change from	Oct., 1960	+1,004.5	−3.8	+2.9	n.a.	+0.9	+46.9
	Nov., 1959	+2,090.9	−6.3	−8.6		+3.7	+41.2
Rockford		$ 1,568	62,101	$18,405		$ 209	$ 242
Percentage change from	Oct., 1960	+40.9	+22.1	+2.2	+1[c]	+2.9	+0.9
	Nov., 1959	+63.5	+22.3	−4.5	−6[c]	+6.4	+4.4
CENTRAL ILLINOIS							
Bloomington		$ 217	10,625	$ 5,903		$ 81	$ 128
Percentage change from	Oct., 1960	−74.2	−0.2	+3.2	n.a.	−4.4	−5.3
	Nov., 1959	+171.2	+10.9	−1.0		+11.5	+47.5
Champaign-Urbana		$ 423	15,086	$ 9,452		$ 89	$ 141
Percentage change from	Oct., 1960	−11.7	+1.2	+10.7	n.a.	−10.5	+1.0
	Nov., 1959	+54.9	+4.6	−0.4		+5.5	+21.2
Danville		$ 181	14,293	$ 6,503		$ 51	$ 78
Percentage change from	Oct., 1960	+10.4	+0.8	+8.0	−3	−10.8	+5.8
	Nov., 1959	+39.2	+6.2	−3.4	−5	+8.6	+13.7
Decatur		$ 5,353	37,508	$11,950		$ 120	$ 119
Percentage change from	Oct., 1960	+682.6	−2.2	+4.4	−2[c]	−16.8	−9.1
	Nov., 1959	+1,420.7	+5.7	−1.7	−6[c]	−1.5	+3.7
Galesburg		$ 140	9,456	$ 4,422		n.a.	$ 51
Percentage change from	Oct., 1960	−83.2	+2.0	−1.3	n.a.		+5.8
	Nov., 1959	−20.5	+3.7	−11.0			+8.2
Peoria		$ 317	54,737[c]	$16,659		$ 224	$ 349
Percentage change from	Oct., 1960	+105.8	−5.9	−0.9	+14	−2.6	+9.2
	Nov., 1959	+19.2	+8.7	−10.2	+4	+0.5	+11.9
Quincy		$ 299	13,526	$ 5,505		$ 52	$ 79
Percentage change from	Oct., 1960	−73.0	+6.8	+0.2		−5.5	−7.6
	Nov., 1959	−50.7	+23.5	+0.5		−7.2	+9.6
Springfield		$ 2,021	38,330	$14,022		$ 131	$ 304
Percentage change from	Oct., 1960	+147.1	−1.2	+2.8	+4[c]	−9.9	+1.7
	Nov., 1959	+418.2	−1.5	−2.9	−3[c]	−2.9	+8.2
SOUTHERN ILLINOIS							
East St. Louis		$ 56	17,122	$ 9,022		$ 143	$ 77
Percentage change from	Oct., 1960	−22.3	−12.1	+1.9	n.a.	−1.1	−2.1
	Nov., 1959	−61.6	+12.6	−2.0		−0.4	+7.4
Alton		$ 222	21,363	$ 5,163		$ 44	$ 44
Percentage change from	Oct., 1960	+79.0	−14.0	−0.9	n.a.	+3.2	+1.9
	Nov., 1959	−50.7	−15.5	+5.1		+2.6	+17.6
Belleville		$ 69	12,355	$ 4,829		n.a.	$ 53
Percentage change from	Oct., 1960	−28.9	+8.2	+1.7	n.a.		−4.4
	Nov., 1959	−18.8	+10.1	+5.5			+3.8

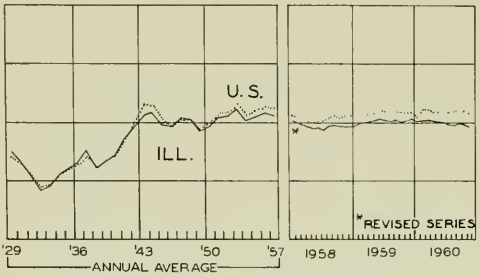
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for October, 1960. Comparisons relate to September, 1960, and October, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending November 11, 1960, and November 13, 1959.

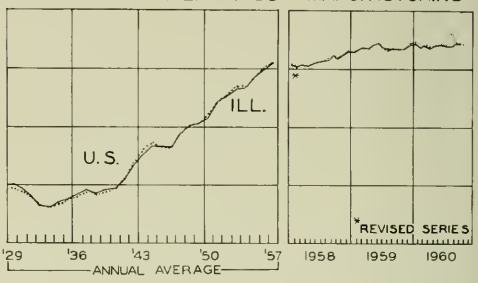
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

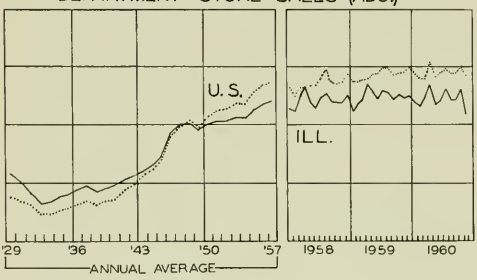
EMPLOYMENT MANUFACTURING



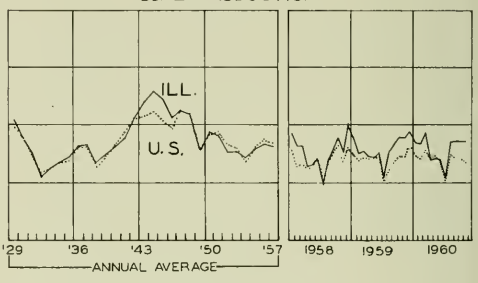
AVERAGE WEEKLY EARNINGS — MANUFACTURING



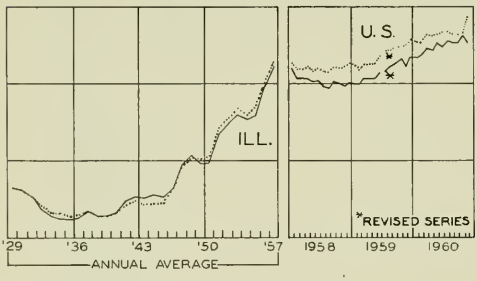
DEPARTMENT STORE SALES (ADJ.)



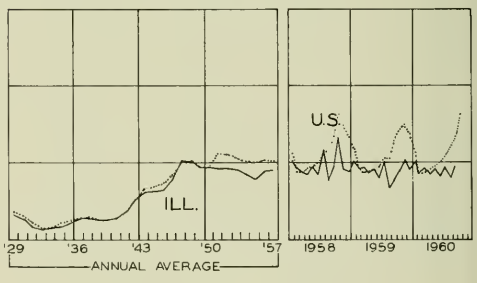
COAL PRODUCTION



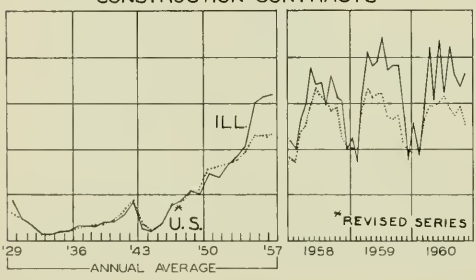
BUSINESS LOANS



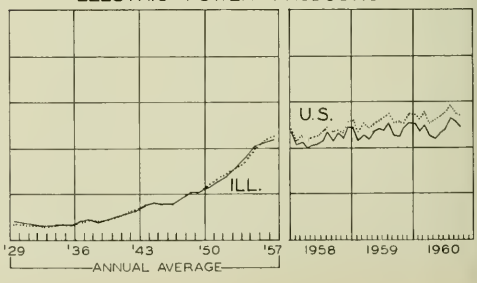
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN JANUARY

The force of the current recession continued unabated in January. The index of industrial production was almost back to the 1957 average, having fallen 8 points from 110 since July. Steel output was still running below 50 percent capacity, and auto production was reduced to 414,500 for January, down 40 percent from a year ago and the lowest January output since 1952.

Retail sales, which fell $400 million on a seasonally adjusted basis in December, dropped $300 million in January to $17.7 billion. Deliveries of domestically produced automobiles fell from a daily rate of 18,800 in December to 14,760 in January, and department store sales declined from 147 percent to 142 percent of the 1947-49 average after seasonal adjustment. Only the stock market has been characterized by a strong expansionary movement. The Dow Jones average of industrials, reflecting a marked influx of speculative money running contrary to current profits indications, rose from about 610 at the first of January to about 650 at its close.

Construction Off

Preliminary estimates place the value of new construction in January at $3.8 billion. This amount was 15 percent less than in December, 1960, compared with a normal seasonal decline of about 13 percent between December and January. The total for last month was approximately the same as in January, 1960.

New private construction in January amounted to $2.8 billion, 12 percent less than in December and 4 percent under January a year ago. The normal seasonal decline between December and January is about 11 percent. Spending for construction of private nonfarm residential buildings accounted for most of the reduction in the private sector. Most other types of private construction were also off, but the declines were generally no more than normal for the season.

Total new public construction expenditures amounted to $1.1 billion, down 20 percent from December, compared with a normal seasonal decline of about 17 percent.

Sales and Inventories Drop

Sales of manufacturing and trade firms in December declined to a seasonally adjusted $59.1 billion, off $800 million from November. Sales have fallen each month since the April peak of $62.6 billion except in October, when they held steady. The December total was $1.8 billion below the year-earlier month. The drop from November occurred principally in retail sales, which at $18.0 billion were $400 million lower than in November. Sales of manufacturers were down about $300 million to $28.9 billion, while those of wholesalers were unchanged at $12.2 billion.

The combined book value of inventories held by manufacturing and trade firms dropped for the sixth consecutive month. The total at the end of December amounted to $92.2 billion, down $450 million from the month-earlier date but still $2.8 billion above the end of 1959. The inventory-sales ratio rose again, as it has in all but one month since April.

New orders received by manufacturers in December were off about 1 percent to a seasonally adjusted $28.8 billion, with most of the decline in durables. Unfilled orders on manufacturers' books at year-end were down to $45.7 billion, nearly $6.0 billion below the end of 1959.

Measures to Reduce Gold Outflow

President Kennedy has proposed eighteen measures to reduce the outflow of gold from the United States. To ease the short-term demand for gold, he called for strengthening of international monetary institutions, utilization of our drawing rights in them when appropriate, amendments to the Federal Reserve Act and action by the Treasury to permit higher interest rates on savings balances and United States government securities held by foreign governments or monetary authorities, and continuation of the existing prohibition on holdings of gold abroad by Americans.

Measures to correct the basic payments deficit and achieve longer-term equilibrium, many of which are already in effect, include continuation of the export promotion program; efforts to stabilize costs and prices; liberalization of export guarantees and financing; encouragement of foreign travel in the United States; closer tying of foreign aid to procurement of American goods; efforts to secure further reductions in tariff, quota, and other restrictions on American exports; stimulation of investment in the United States by foreigners; reduction of the duty-free allowance for returning travelers; savings in military and other expenditures abroad; efforts to persuade other industrial capitalist countries to carry an increased part of the aid to underdeveloped countries; and legislation to prevent the abuse of foreign "tax havens" by American capital abroad.

PRESIDENT KENNEDY AND THE EISENHOWER BUDGET · By Phillip Monypenny · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

Emancipation from Gold

Irrationality has tended to characterize the person who becomes infected with the "gold fever," and nations apparently exhibit symptoms of the same affliction. In this country, we seem to regard our gold stock as a kind of Maginot Line and tremble when losses suggest a crumbling of our fortifications. This leads to putting ill-considered measures to prevent further outflows ahead of real national needs:

We keep interest rates high to prevent transfer of funds abroad even though lack of growth has left one worker out of 16 unemployed and the current decline in private investment might be moderated by easier money.

We curtail our expenditures abroad despite earlier insistence that they were essential to liberty and good relations throughout the world, and our restrictions are reported to be "designed to deprive foreigners of the dollars that could be used to buy American gold."

We also prohibit our own citizens from holding gold abroad in the hope that they will "be good" and refrain from speculating on the chance that necessary adjustments will be made.

Last month the possible need for devaluation was discussed here. The thesis was that exchange rates had been put out of line by postwar devaluations of other currencies and were now in need of a reverse adjustment. Several sentences in that account implied that the price of gold might be raised. This was contemplated only because it seemed that, given the world's present hangover of superstition about gold, some of the other countries might not want to lower its price in their currencies. The easiest way would then be to raise its price moderately in dollars. But on further consideration this "easy solution" would appear to preserve too many of the existing handicaps and rigidities. The better course would be to demonetize gold entirely, as proposed allegorically in the Christmas issue of the London *Economist*.

The Value of Gold

In the traditional treatment of the money supply, gold is held to be an asset, and the "integrity of the dollar" is supposed to be maintained by the intrinsic value of the gold into which it may be converted. The general acceptance of this fiction serves to demonstrate how little thinking we ordinarily do about the institutions with which we have grown up.

Those who believe that gold has a "fixed and immutable value" should consider the standards by which they judge values. The fact is that gold has little intrinsic value and its actual value has fluctuated widely within the experience of the present generation. It has been tied to the dollar, and every time the value of the dollar changed the value of gold changed with it. In other words, the price of gold is fixed by decree and its value is dependent upon the price-support program we have legislated for it.

There would be no point in denying that gold has some utility. It serves mainly in ornamentation and in some industrial and personal uses, such as dental appliances, where its non-corrosive qualities are important. These uses, however, fall far short of matching output. In recent years, production in Western countries has averaged $1.1 billion, and with shipments from Russia the total available annually has been around $1.3 billion. Of this, about half has gone into monetary gold stocks and probably well over half of the remainder has gone into private hoards. Only a fraction of the current supply has gone into consumption. If gold were treated as an ordinary commodity, to be bought and sold in a free market, its price would drop sharply, even apart from any liquidation of the tremendous monetary stocks.

It may still be pointed out that gold has represented a convenient medium for settling international accounts. But that value, too, is artificial. Our price-support program for gold and the exigencies of the postwar situation combined to force other countries to operate on the "dollar exchange" standard. The possibility of any change in the monetary role of gold seemed so slight that monetary authorities and central banks of other countries were willing to join in what amounts to a common pretense that the underlying value of gold justifies its use in this way. It is a kind of conspiracy to keep people believing in the "soundness" of existing monetary systems. But none would try to maintain the pretense if we should decide that gold no longer deserved this status. The whole arrangement would collapse any time we decided to rescind our promise to buy back the gold at some stated number of dollars per ounce.

That gold may at times command a premium in foreign markets does not disprove the fact that the dollar basically sets its value. The premium reached in the buying flurry of last October was merely a temporary reflection of speculative fears and hopes. The market was gambling that our economic health would sink so far that we might grasp for remedy at a large-beyond-reason dose of devaluation in the form of a higher gold price.

An $18 Billion Liability

In some respects our situation is the typical case of a business decline combined with an adverse balance of payments. In theory this would call for a devaluation of the dollar in relation to other currencies, since any action for domestic reflation would otherwise tend to aggravate the deficit on international account.

Frequently pointed out, however, are two differences from the usual situation of this kind. One is the contrast between our balance of payments and our balance of trade. Whereas the former shows a deficit of about $4 billion, the latter shows a somewhat larger surplus. Both have been inflated by temporary factors, but the contrast has led to the widely voiced opinion that "our trade position is obviously not at fault," that we are merely spending too much in other forms, particularly military

(Continued on page 8)

CHEESE-MAKING

Cheese, a basic food in the human diet, has been valued and enjoyed by man for at least 5,000 years. The real importance of the food in the thousands of years in which refrigeration was unavailable was that it provided a milk substitute in a solid, preservable form, especially useful in countries where milk was in short supply or spoiled easily.

As the knowledge of cheese-making spread, diverse methods of preparing and curing cheese — many of which were closely guarded secrets — developed in various countries. As a result, the methods of cheese-making brought to America by early settlers were often named for the locale from which they were imported, such as Neufchatel, Munster, and Roquefort from France, and Cheddar and Stilton from England.

Cheese production in this country became commercialized in some areas before the Civil War, but the larger share was made on the farm chiefly for home consumption. Other consumers were dependent on surpluses taken to market once a year. Supplies were variable and often of poor quality. To correct this, and also because cheese generally required more attention than the farmer could spare, specialized factories which could manufacture cheese efficiently to uniform standards were developed. After 1860, the cheese industry experienced a steady growth, accelerating in this century. Volume (excluding cottage and creamed cottage cheese) increased from 330 million pounds in 1904 to 1.4 billion in 1958, and value of shipments rose from $29 million to $755 million.

The Industry Nationally

Although the United States has few cheeses that can be claimed as its own, this country is the world leader in total production. With output at 1.4 billion pounds in 1958 the United States produced more than one-fourth of the free world's cheese supply and one-third of the factory-made cheese. The combined output of all countries in the great cheese area of Western Europe is only half again as much as that of our cheese industry alone.

Nearly all commercial cheese produced in the United States today is from factories. The industry, however, consists of a large number of small local producers. Of the approximately 1,400 cheese factories nationally, only 180 employ more than twenty workers, and the average plant has only eleven employees. Value added by manufacture in the typical factory was nearly $87,000 in 1958, compared with $38,000 in 1947.

Because of the high perishability of milk, the industry has developed mainly in rural districts near abundant milk supplies. In all, 30 states manufacture some variety of cheese, but nearly seven-tenths of national production (excluding cottage cheese) comes from a ten-state triangular region lying between Ohio, Kansas, and Minnesota. Wisconsin, the largest producer in this area, makes nearly 60 percent of the nation's cheese.

The per capita consumption of cheese in the United States, though lower than in most European countries, has risen steadily during the past three decades. In 1958, Americans consumed 8½ pounds per person, compared with only 4½ pounds in 1930. This increased popularity is attributed not only to improvements in quality that resulted from greater control of the bacteriological processes during cheese-making, but also to improved methods of packaging and distributing.

Cheese Manufacture

More than 400 known varieties of cheese are produced in the United States today. Most of these differ primarily in shape, moisture content, type of animal milk utilized, and principal micro-organisms used for ripening, and are minor variants of about eighteen major types. The basic process common to the manufacture of all varieties consists of using rennet (a digestive enzyme) to curdle the milk after a liquid micro-organic culture, called a "starter," has been added. Whey, or the excess liquid, is then removed from the solid curd, and the latter is salted and allowed to mature for varying periods.

Most important of the cheeses manufactured in the United States is Cheddar, or American cheese as it is commonly known. Cheddar, which legally must contain no more than 39 percent moisture and more than 50 percent milkfat in solids, accounts for 70 percent of the nation's cheese volume. Other important cheese varieties, although produced in much smaller quantities, are Swiss, cream, Neufchatel, brick, Munster, and blue mold. A variety of miscellaneous cheeses, including the numerous Italian kinds, make up nearly 12 percent of output.

Illinois — Fourth in Production

Cheese production in Illinois takes place mostly in the rich dairy region in the northern half of the State where about 70 of the state's 85 cheese factories operate. Many of the remaining establishments are in counties near East St. Louis and Shelbyville. Altogether, cheese is made in 41 of the state's 102 counties.

The oldest cheese factories in Illinois are found in the northwestern section in an area made up largely of Stephenson and Jo Daviess counties, the western part of Winnebago County, and the northern part of Carroll and Ogle counties. Crossroads cheese factories, many of them operated by persons of Swiss descent, are spaced within five-mile intervals over a large part of the region.

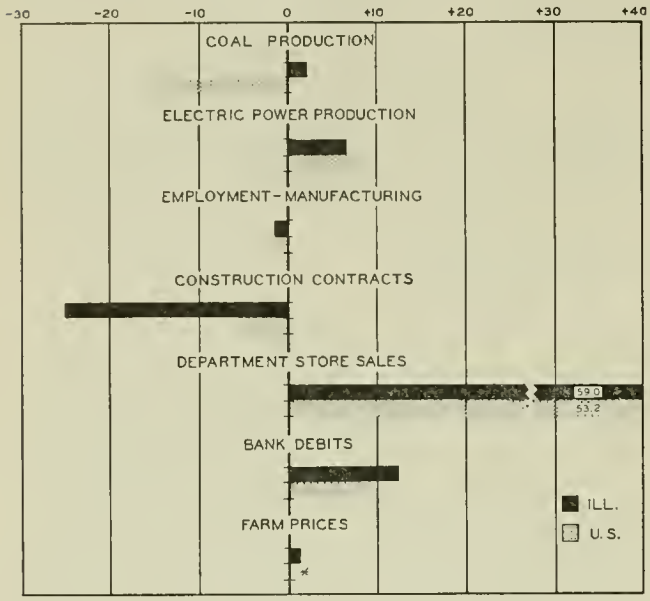
More than 84 million pounds of natural cheese, some 6 percent of the national total, were produced in Illinois during 1958. This was the fourth highest state output, being exceeded by Wisconsin, New York, and Missouri. Although this total was 10 percent below the record production level of 93 million pounds for 1954, it equaled the postwar average for the years 1946-58. The value of shipments for the State in 1958 was $38.5 million.

An estimated 35 varieties of cheese are made in Illinois. However, two kinds — Cheddar and Swiss — dominate production, accounting for 43 percent and 39 percent respectively of 1958 output. Illinois became the national leader in Swiss cheese production in 1958, the first year of record that any state exceeded Wisconsin.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes November, 1960, to December, 1960



* No change.

ILLINOIS BUSINESS INDEXES

Item	Dec. 1960 (1947-49 =100)	Percentage change from Nov. 1960	Percentage change from Dec. 1959
Electric power[1]	259.6	+ 6.6	+ 2.9
Coal production[2]	87.9	+ 2.1	− 5.8
Employment—manufacturing[3]	95.2	− 1.5	− 7.6
Weekly earnings—manufacturing[3]	170.5[a]	− 0.8	+ 2.1
Dept. store sales in Chicago[4]	127.0[b]	+ 6.7	+ 3.3
Consumer prices in Chicago[5]	130.6	+ 0.1	+ 1.2
Construction contracts[6]	273.0	−25.0	+52.8
Bank debits[7]	240.8	+12.4	+ 2.9
Farm prices[8]	81.0	+ 1.2	+ 9.5
Life insurance sales (ordinary)[9]	347.5	+ 9.6	− 3.0
Petroleum production[10]	125.8	+ 0.8	+ 2.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Data for November, 1960, compared with October, 1960, and November, 1959. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Dec. 1960	Percentage change from Nov. 1960	Percentage change from Dec. 1959
	Annual rate in billion $		
Personal income[1]	406.7[a]	− 0.6	+ 3.2
Manufacturing[1]			
Sales	346.8[a]	− 1.0	− 6.2
Inventories	53.6[a, b]	− 0.7	+ 2.5
New construction activity[1]			
Private residential	20.9[c]	− 7.7	− 8.5
Private nonresidential	16.9[c]	− 6.8	+ 4.8
Total public	14.6[c]	−11.8	+ 4.4
Foreign trade[1]			
Merchandise exports	21.6[d]	+ 3.0	+21.5
Merchandise imports	13.9[d]	+ 0.3	− 9.5
Excess of exports	7.6[d]	+ 8.3	+223.4
Consumer credit outstanding[2]			
Total credit	56.0[b]	+ 2.6	+ 7.7
Instalment credit	43.3[b]	+ 1.4	+ 9.6
Business loans[2]	37.3[b]	+ 2.2	+ 4.0
Cash farm income[3]	44.5[d]	− 7.2	+ 5.2
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	103[a, e]	− 1.9	− 5.5
Durable manufactures	96[a, e]	− 2.0	−10.3
Nondurable manufactures	112[a, e]	0.0	0.0
Minerals	96[a, e]	− 1.0	− 2.0
Manufacturing employment[4]			
Production workers	95	− 1.9	− 5.6
Factory worker earnings[4]			
Average hours worked	98	− 1.0	− 4.4
Average hourly earnings	174	+ 0.9	+ 2.2
Average weekly earnings	170	− 0.2	− 2.3
Construction contracts[5]	239	− 5.8	+22.2
Department store sales[2]	147[a]	+ 3.5	+ 0.7
Consumer price index[4]	128	+ 0.1	+ 1.6
Wholesale prices[4]			
All commodities	120	− 0.1	+ 0.5
Farm products	89	− 1.3	+ 3.3
Foods	109	+ 0.2	+ 4.4
Other	128	0.0	− 0.5
Farm prices[3]			
Received by farmers	89	0.0	+ 4.7
Paid by farmers	119	0.0	+ 0.8
Parity ratio	81[f]	0.0	+ 3.8

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for November, 1960, compared with October, 1960, and November, 1959. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961 Jan. 28	1961 Jan. 21	1961 Jan. 14	1961 Jan. 7	1960 Dec. 31	1960 Jan. 30
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,178	1,163	1,304	1,366	1,343	1,487
Electric power by utilities...mil. of kw-hr	15,361	14,817	14,684	14,245	13,956	14,313
Motor vehicles (Wards)...number in thous.	116	112	131	90	102	206
Petroleum (daily avg.)...thous. bbl.	7,198	7,216	7,151	7,165	7,173	7,136
Steel...1947-49 = 100	85	87	86	79	64	158
Freight carloadings...thous. of cars	476	490	516	439	406	602
Department store sales...1947-49 = 100	103	107	129	118	116	111
Commodity prices, wholesale:						
All commodities...1947-49 = 100	119.9	119.8	119.9	119.6	119.6	119.3[a]
Other than farm products and foods...1947-49 = 100	128.1	128.1	128.1	127.9	127.9	128.8[a]
22 commodities...1947-49 = 100	83.1	83.2	82.7	82.0	81.5	85.2
Finance:						
Business loans...mil. of dol.	31,150	31,450	31,653	31,793	31,931	29,862
Failures, industrial and commercial...number	400	340	335	265	276	281

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for January, 1960.

RECENT ECONOMIC CHANGES

Steel Production

The American Iron and Steel Institute reported total steel production for 1960 amounted to 99.3 million tons, up about 6.2 percent from 1959 when the prolonged strike contributed to holding output to 93.4 million tons.

Last year's relatively high figure, however, does not accurately reflect the depressed condition in the industry through the second half of the year. During the first quarter of 1960 steel mills operated at near full capacity as they turned out 34.7 million tons. The production slump which followed cut output in the subsequent three quarters to 26.0 million, 19.7 million, and 18.9 million tons, respectively. In the second half the operating rate fell to about 50 percent, dropping the average for the year to 66.8 percent of the total rated capacity of 148.6 million tons. The industry has not released an estimate of capacity for 1961. Such figures are considered of questionable value since the effects of technological changes during the year are not incorporated.

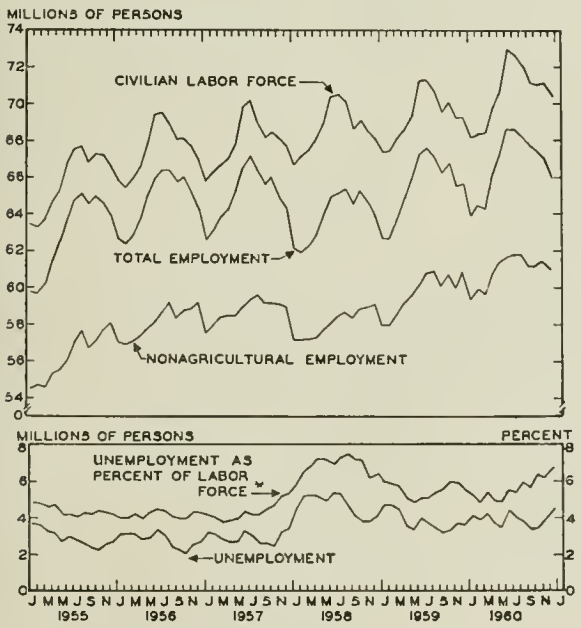
In a separate report the AISI indicated that current plans for 1961 spending on new plant and equipment amount to $1.2 billion, down about 19 percent from actual 1960 outlays. Last year's expenditures of $1.5 billion fell 7.5 percent short of original plans.

Retail Sales

Advance estimates by the Department of Commerce placed retail store sales during December at $22.2 billion before adjustment for seasonal factors and trading day differences. After adjustment, December, 1960, sales were down 3 percent from the previous month to $17.9 billion, the lowest level of the year. The preliminary figures also revealed a decline of more than 6 percent in sales by durable goods stores in the last month of 1960.

The December figure brought total sales for 1960 to $219.6 billion, a 2 percent increase over 1959. All of last year's gain was accounted for by a 3.4 percent gain in sales of nondurable goods which more than offset a drop in durable goods sales. After reaching a peak of $18.9 billion in April, sales trailed off through most of the second and third quarters of the year, then rose sharply in October to $18.5 billion. From this point sales fell in the final two months to the December low.

LABOR FORCE TRENDS



Source: Bureau of Labor Statistics.

Consumer Prices

The Labor Department's consumer price index reached a record high of 127.5 percent of the 1947-49 average in December, up one-tenth of 1 percent from the previous month. Increases in food and shelter costs accounted for most of the December advance. Food prices were pushed up to 121.4 percent of the base period, just short of the postwar high of 121.7 percent set in July, 1958. Rising residential taxes were the major factor in the increase in shelter costs to 132.3 percent.

The December advance helped push the average cost of living to a new high for the fifth consecutive year. The consumer price index averaged 126.5 percent in 1960, compared with 124.6 percent in 1959.

Business Failures

The number of business failures in 1960 reached a 27-year high, with about 1,300 firms shutting down each month. During the year 15,445 companies failed, compared with the previous high of 19,859 set in 1933. Statistics compiled by Dun and Bradstreet, Inc., indicate that the rate of failures per 10,000 firms has also risen sharply. During the last four months of 1960 the rate ran well above 60, pushing the average for the year up to 57. In 1959 the rate was 52 failures for every 10,000 firms. While failures rose in almost every category of industry and trade, mortalities were particularly high among construction firms and retail automobile dealers.

Liabilities of bankrupt firms averaged $78.2 million a month in 1960. Average liabilities per company rose sharply from $49,000 in 1959 to $61,000 last year.

On the other side of the picture, new corporations were being formed at a rate of 15,000 per month in 1960, about 6.8 percent below the 1959 rate of 16,100 per month.

Unemployment

Total unemployment rose sharply in the past four months as 2 million persons were added to the jobless lists from September, 1960, to January, 1961. The latest advance of 845,000 brought unemployment to 5.4 million in mid-January, a postwar high for the month.

Recent trends in the labor force are illustrated in the accompanying chart. As can be seen, the growth in the labor force and in employment has been accompanied by a persistent unemployment problem. Since 1954 the seasonally adjusted rate of unemployment has remained above 4 percent, with the only exceptions being March and April, 1957, when the rate fell to 3.8 and 3.9 percent, respectively.

Labor Department data, in thousands of workers, are as follows:

	Jan. 1961	*Dec. 1960*	*Jan. 1960*
Civilian labor force	69,837	70,549	68,168
Employment	64,452	66,009	64,020
Agricultural	4,634	4,950	4,611
Nonagricultural	59,818	61,059	59,409
Unemployment	5,385	4,540	4,149
Seasonally adjusted rate	6.6	6.8	5.2

PRESIDENT KENNEDY AND THE EISENHOWER BUDGET

PHILLIP MONYPENNY, Professor of Political Science

According to an unnamed Republican senator, quoted in the *Wall Street Journal*, the Eisenhower budget submitted in January for the first fiscal year of the Kennedy Administration was a kind of practical joke on the incoming president. Its claimed surplus of $1.5 billion was based on at least two dubious assumptions: A substantial increase in tax revenue was projected despite the obvious prospect of a decrease rather than an expansion; and the adoption by Congress of two previously rejected proposals was assumed — higher postal rates and an increase in the gasoline tax. Further, new programs were proposed for which no specific budgetary provision was made.

If one discounts the obvious political capital in presenting a new administration with a choice of either scaling down the promises made by the old or incurring a substantial deficit by executing them, the explanation of the budget as presented lies in a situation which limits the choices of the man in the White House, whatever his party. In the absence of a crisis, something clearly not contemplated by the budget-makers, the limiting factor on expenditures will probably be the yields of existing taxes, which will not readily be increased.

Budget Balancing as a Goal in Itself

The theme of budget balancing in the Eisenhower budget, however tenuous the claim to its realization in the new estimates, is not the least significant part of the budget message. Reiterated in the State of the Union Message and in the Economic Report, control of inflation, which is linked to the balanced budget, is set out more loudly and clearly than any other policy goal. It is stressed as a primary political value in the thinking of the outgoing administration.

The enunciation of goals and the making of particular decisions are notoriously separate activities. The course of budget policy during the Eisenhower Administration had a more complex evolution than simple devotion to budget balancing can explain. The first encounter between Eisenhower (or Republican) principles and Truman recommendations resulted in a clear victory for principle. By the end of Eisenhower's first term, however, a variety of considerations were at work, of which the avoidance of imbalance in the budget was only one.

The outgoing Truman Administration produced a budget for Eisenhower's first fiscal year (fiscal 1954) which was an epitome of the Fair Deal. While new departures in policy were specifically foresworn, and no new legislative proposals were made, the total expenditure projected was $78.6 billion, substantially in excess of the $74.6 billion estimated for 1953.

The increases projected by Truman were partly in the military sphere, a sizable re-equipment of expanded armed forces being contemplated, partly in large amounts for military and economic assistance to allies, and partly in the domestic sphere, primarily natural resource development and education and research.

On taking office, Eisenhower made sharp reductions in his predecessor's requests to Congress. Cuts were effected mainly in military programs as the war in Korea ended its active phase. The actual expenditures for fiscal 1954, Eisenhower's first full fiscal year in office, were $67.5 billion, which was not only lower than Truman's budget proposals, but lower than the actual $74.1 billion of fiscal 1953.

Growth in the Eisenhower Budgets

From this achievement of fiscal orthodoxy, Eisenhower presided over budgets which grew to over $80 billion in fiscal 1959. After a small decline of expenditures to $76.5 billion in fiscal 1960, the current estimates put the total at $78.9 billion this year and a new high of $80.9 billion next year (see table).

There has been a shift not only in the size of expenditure, but in its objects. In the field of national defense, the largest single budget item by far, the low point was $40.6 billion in 1955. The high point, until the present $47.4 billion national defense budget, was $46.4 billion in 1959. In this period the Army had comparatively little expansion in its expenditure, the Navy had about doubled its outlay, and the Air Force had virtually tripled its expenses. Manned bombers are disappearing from the Air Force, while guided missiles take their place. A new competitor, the National Aeronautics and Space Agency, is spending about $1 billion a year. These shifts in defense expenditure reflect extensively debated shifts both in technology and in policy. Similarly, the increase in interest payments from $6.6 billion in fiscal 1953 to an estimated $9.3 billion in fiscal 1960 reflects not only an increasing national debt, but the particular economic and fiscal policies of the Eisenhower period.

There is one revealing shift which was not reflected in the debates over policy in the campaign or in the period prior to it. Domestic expenditures show a steady rise since 1956, especially in expenditures for natural resources development, housing and urban renewal, and facilities for water transportation. Welfare costs, of which the bulk is represented by public assistance, have had a steady rise since 1954. All of these items continue this trend in the current budget, and agriculture shows a new rise but falls well short of the 1959 high.

The increases in the domestic categories are singled out for special attention in the budget message. After noting that a consistent effort has been made to avoid unnecessary expenditure, the statement is made:

BUDGET EXPENDITURES AND RECEIPTS
(Fiscal year; billions of dollars)

Function	1953	1954	1959	1960	1961 (Est.)	1962 (Est.)
Major national security	50.4	46.9	46.4	45.6	45.9	47.4
International affairs	2.2	1.7	3.8	1.8	2.3	2.7
Commerce, housing, and space	2.5	.8	3.4	2.8	3.8	3.4
Agriculture	2.9	2.6	6.5	4.8	4.9	5.1
Natural resources	1.5	1.3	1.7	1.7	2.0	2.1
Labor and welfare	2.4	2.5	4.4	4.4	4.5	4.8
Veterans' benefits	4.3	4.3	5.2	5.1	5.2	5.3
Interest	6.6	6.5	7.7	9.3	9.0	8.6
General government	1.5	1.2	1.6	1.7	2.0	2.1
Budget expenditures[a]	74.1	67.5	80.3	76.5	78.9	80.9
Budget receipts[a]	64.7	64.4	67.9	77.8	79.0	82.3
Surplus or deficit (−)	−9.4	−3.1	−12.4	1.2	.1	1.5

[a] Excluding interfund transactions.
Source: *The Budget for Fiscal Year 1962*, Special Analysis G.

At the same time the record of this administration has been one of action to help meet the urgent and real needs of a growing population and a changing economy. Federal expenditures between 1953 and 1961 for aids to education have more than doubled, outlays for public health have more than tripled, civil aviation expenditures have more than quadrupled, highway expenditures are five times the 1953 level and urban renewal expenditures are more than seven times as great.

Eisenhower was evidently stung by criticisms of his administration during the campaign. Truman could have made no more forthright statement about the responsibilities of government. The new budget therefore leaves unresolved the conflict between budget balancing and budget expanding, which remains a central policy issue.

Increases Within Moderate Limits

In view of the implicit acceptance by the Eisenhower Administration in its last days of many of the policy positions of its opponents, there is not too much room for a complete recasting of proposed federal expenditures by Kennedy. The points of change available for executive initiative, and they may well be dramatic, are likely to be in timing and emphasis. Contracts may be let with speed, expenditure pushed into the earlier part of the fiscal year, applications for grants and loans approved with less cumbersome procedure. The purposes served may be to combat recession in the economy, to make a dramatic demonstration in foreign policy, to speed the build-up of military strength, all without great variation in established or projected budgets.

When it comes to substantial variation in the total volume or the distribution of expenditure, the Kennedy Administration, like the one before it, must work within the limits of congressional consent. If Congress in recent years pushed Eisenhower to spend more, it is likely to restrain any Kennedy moves toward more than moderate increases, always excepting the onset of crisis.

The narrow margin by which the increase in the size of the Rules Committee was approved in the House shows Kennedy's strength and weakness. It is a significant check on the Rules Committee, the first it has had in years, but it was by no means an unrestrained endorsement of presidential leadership. On issues of substance, rather than of organization, constituency pressures are stronger than party loyalty. Only for a minority of members of Congress do party loyalty and constituent pressures run in the same direction. The Congress is dominated by moderates who are probably nearer to the Eisenhower position on public finance than to the recklessly spending Democrats pictured in the Republican campaign.

One may therefore expect Kennedy's budget proposals during the current Congress to be near to the totals presented by his predecessor. The measures he has so far sent to Congress do not suggest a sudden and drastic increase of cash outlays. The significant difference is likely to be that budget balancing will have less appeal as a prime virtue. If revenues fall because of the decline in economic activity, it is not likely that there will be any corresponding reduction in expenditure. Nor is it likely that the economy will be burdened by new taxes before it recovers from the recession. The prescription of inaction to let the economy readjust itself by "natural" means is not consistent with Kennedy's position in the campaign, nor is it consistent with the pressures which will build up on Congress and the Administration alike in a time of reduced economic activity.

As the Eisenhower experience shows, the principal stresses toward budget expansion occur in the fields of national security and foreign affairs, the management of the farm economy, the reconstruction of our cities, the provisions for dependent populations, and in expenditures for water development and highways. The relief of persons in depressed areas has clearly become another point of strong pressure.

Decisions Yet to Be Made

In all of these fields, one evil, which is represented by constant or increased expenditure, must be weighed against another, the evil of foregoing expenditure. The balancing cannot be done with certainty. Thus, even with the pyramiding costs of a multiple strategy in national defense, the margin of safety which any particular military measure may provide is not easily given a dollar cost. He who seems to neglect national survival is in an unenviable position, as Truman found in the budget-cutting phase of his administration. The same principles apply to foreign aid. Whatever the argument against any particular project, the prospects of failure in the international competition, the prospect of the steady increase in the number of Communist-dominated countries, will make even dubious effort more desirable than inaction.

The domestic programs do not offer much more prospect for diminishing expenditure. Being as wealthy as we are, the relief of need, where it appears inescapably as need, cannot be avoided. Further, need has votes, whether it is the misery of the metropolitan poor, the misery of the abandoned mining town, or the undramatic deterioration of the position of a portion of our farmers.

Not only does need have votes. The development of our economy has become more than a matter of national pride or of personal profit. Any crisis, international or domestic, may raise the issue of survival. Investments in dams for water and power, in the maintenance of farms and farm operators in production, the provisions of highway and air transport as an additional transport reserve, have a sudden justification in emergency which they may have lacked before. The combination of wealth and crisis would seem to be irresistible. Collectively, as in our individual expenditure, we are prodigal because the increment of value conserved by not spending seems less than the increment of value represented by what we buy.

We have not discussed the pressures on budget policy in carefully political terms. Yet the values of which we speak are political values. They are the open stakes of politics, as they have developed in the last decades. The bulk of federal expenditure is not a matter for serious political conflict between our parties. There are, however, significant differences between the parties and between the candidates of each party as to the magnitude of crisis which is likely to persuade them that maintaining a balance between income and outgo is no longer appropriate.

Kennedy as President is not likely to feel restrained when faced with a challenge to our national well-being or our national security which he and his supporters consider significant. For both Republican and Democratic administrations, the national budget has become a flexible instrument of policy representing the complex of obligations and commitments which are effective in the various parts of our national political system. Perhaps the primary significance of the Eisenhower budget lies in the extent of its acceptance of the values represented by the various objects of national expenditure. It indicates a political climate in which the use of the spending power to achieve various national objectives is well established.

Emancipation from Gold

(Continued from page 2)

expenditures, foreign aid, and business investment abroad. There is the mistaken implication in some of these statements that our exports derive only from imports and other current items. Actually, all of the funds we supply are equally available to foreigners for buying goods from us, and one kind cannot logically be separated from another as means of financing purchases.

The second difference is that part of the deficit in recent months derives from transfers of liquid balances, known as "swing capital" or "hot money," and that these transfers were initiated in part by our own citizens. By comparison, we still have large reserves — $18 billion in all, with $12 billion required as a monetary reserve and $6 billion free — and these should adequately take care of temporary outflows of short-term balances. Nevertheless, these speculative transfers apparently account for only half of our deficit. If the other half involves a long-term imbalance, then it would take twice as long to exhaust our reserves, but they would disappear over a longer period, and the threat of their ultimate exhaustion would be bound at some point to induce exactly the kind of speculative transfer we have just experienced.

Neither of these differences changes the situation enough to make it an exception. The issue evidently concerns the reasons why foreigners are no longer buying our goods up to the limits of the funds currently being made available. They were doing so in the "dollar shortage" period just after the war. In the early 1950's they began to accumulate reserves, and although liquidity has been generally restored, there are no signs of another reversal. It now appears that foreigners have rebuilt sufficiently to produce the goods themselves or else they prefer to buy them from others who can produce more cheaply. In other words, we have lost competitive position, and the effect is deflationary. The funds withheld by foreigners put a drag on our economy in the same way as would similar withholding by domestic hoarders.

The role of gold in this picture is to support the deflation. Taking gold instead of goods is merely the direct deflationary impact. It is aggravated by the excessive accumulation of liquid dollar balances in the expectation that they may be converted into gold and perhaps later back into dollars at a higher price. This is the indirect impact. To the extent that our gold stock contributes to withholding of the dollars we make available, it is in our present circumstances a liability and not an asset.

Implicit in this situation is a strong probability that our $6 billion of free reserves will soon be exhausted. This might result in an embargo on gold, in which case exchange rates would move toward automatic adjustment. Fears that this contingency would hurt "the prestige of the dollar" have led to proposals by economists and bankers that we eliminate the domestic requirement for a gold reserve, thus freeing the entire stock for international purposes. The effect of this proposal would be to postpone an adjustment and correspondingly prolong the stress of deflation. It would convert a $6 billion liability into an $18 billion liability.

The Need for Gold

The belief that we can dispense with gold as the base for our own monetary system derives from the experience of a generation in which there has been no connection between the gold stock and the money supply. The 1934 enactments have prevented our citizens from trading dollar bills for gold, and the great majority of our people no longer have any feeling for gold as money.

Many who believe that our own monetary system can get along without gold as a base nevertheless feel that other countries are politically less stable and therefore need "hard money" more than we. The implicit assumption of superiority in this contention is not generally justified. It ignores the fact that other countries may cling to gold primarily because they feel that our slavish devotion to an outworn creed can be relied on to sustain the validity of other attachments to gold.

It cannot be shown that gold reserves ever prevented an inflation based on unsound fiscal practices. Excessive quantities of money were typically created, not because the restriction of gold convertibility was lacking, but because the inflating countries were trying to do things not justified by their industrial resources and consumption patterns. Unless the basic difficulties could be corrected, the best gold could do was delay inflation a little as the reserve stock was being run off.

Currently, we seem bent on proving that a continuing adverse balance of payments is also beyond the control of gold reserves. The attempt to keep present exchange rates and gold provisions sacrosanct may in a few troubled years dissipate the largest gold stock ever accumulated. No doubt we shall be minded to act before that point is reached, but only a progressive worsening of the situation is likely to prod us into action.

Abandoning gold as a standard would of course impose the need for some alternative means of settling international balances. Recently proposals have been made by Professor Triffin of Yale and others for moving in this direction. These proposals usually agree on two features: First, some agency like the International Monetary Fund should become a kind of central bank for central banks, maintaining reserve accounts in an international currency into which the various other currencies of the world may be converted. Second, this central bank and all the member countries should operate in such a way as to prevent both excessive accumulation of deficits or surpluses in any country's international accounts and inordinately large short-term transfers of liquid balances.

In other words, each country would still have to meet its obligations. Countries in a deficit position could no more be permitted to pile up adverse balances without limit than could the individual who draws checks on the local bank. Our position is different in that we want and can afford to pay. But, freed from gold, neither we nor others experiencing deficits could be whipsawed by the operations of gold speculators and hoarders.

Under the circumstances, any higher price for gold would be even less justifiable than the present price. There is no point in larger subsidies to the gold producers — whether they reside in this country, South Africa, the Soviet Union, or elsewhere. It is safe to disregard the meretricious arguments of this industry and important to disregard those of the wider grouping of financial interests which seeks to benefit from deflation.

Instead of dedicating ourselves to the status quo, we should be using monetary and fiscal policies wholeheartedly to promote recovery and at the same time arranging a new international monetary conference. Admittedly, such a conference is not likely to succeed unless something more clearly resembling an emergency develops. But the extensive research needed for arriving at a solution should be pressed with all the haste that the spur of a conference deadline could impart. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

New Power Source

The Westinghouse Electric Corporation has delivered a 100-watt thermoelectric generator to the Northern Illinois Gas Company for use as a power source for charging batteries of a microwave relay communication system. This is reported to be the first industrial sale of a thermoelectric generator that converts heat directly into electricity. At the present time, Westinghouse has a line of 5-watt, 10-watt, and 100-watt thermoelectric generators.

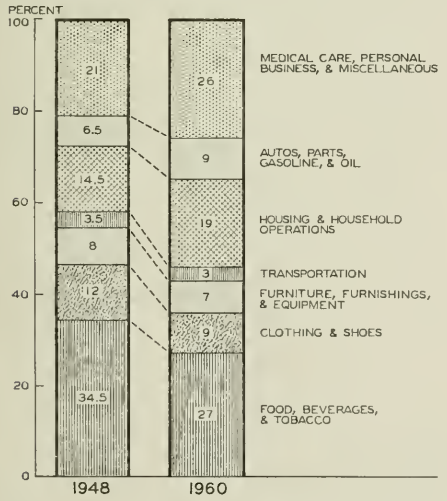
In simple terms, the thermoelectric process utilizes a metal rod that is heated at one end and cooled at the other end. Electricity is created when the electrons move from the hot end to the cool end of the metal rod. These devices can operate on any one of a number of different kinds of fuels. The one purchased by Northern Illinois Gas Company can operate on propane or natural gas.

Since the process is reversible, these devices may also be used as refrigerants when electrical energy is supplied. Some possible future uses of the thermoelectric generators range from refrigerated kitchen drawers to completely gas-operated furnaces in which the heat from the burner is used to create electric power to run the fan.

Shifts in Consumer Spending

According to the January, 1961, issue of the *Survey of Current Business*, consumers channeled 47 percent of their 1960 expenditures into nondurable goods, 40 percent into services of all kinds, and 13 percent into durable goods. In 1948, the first year after the war when the economy had again reached high rates of civilian employment and output, consumers spent a greater proportion of their budgets for nondurable goods and less for services — 55 percent and 32 percent respectively. The proportion spent for durable goods was about the same for both years.

PERCENTAGE DISTRIBUTION OF CONSUMER EXPENDITURES, 1948 AND 1960



Source: U. S. Department of Commerce, *Survey of Current Business*, January, 1961, p. 16.

The accompanying chart shows that there has been a considerable shift in the pattern of consumers' spending since 1948. A greater proportion was spent in 1960 than in 1948 for housing, household operations, medical care, and personal business services, along with automobiles, auto parts, gasoline, and oil. In 1948 housing and household operation expenditures accounted for 14.5 percent of the consumer's budget; by 1960, this amount had risen to 19 percent.

The major categories of consumer expenditures which have declined in relation to total consumption over the twelve-year period include food and beverages, tobacco, clothing and shoes, furniture, furnishings and equipment, and transportation service. These items together accounted for 58 percent of consumers' expenditures in 1948, but only 46 percent in 1960.

Family Income Changes

The Bureau of the Census reports that the pattern of family income changes between 1947 and 1959 was characterized by a large increase in average income and a marked upward shift of families along the income scale. In current dollars, average family income advanced from $3,000 in 1947 to $5,400 in 1959, a rise of nearly 80 percent. Although a large part of this gain reflected the rise in consumer prices, families experienced a substantial increase in real purchasing power. In constant 1959 dollars, average family income rose from about $4,000 in 1947 to $5,400 in 1959, an advance of 35 percent.

Of the nation's 45 million families, about 41 percent received incomes between $3,000 and $5,000 in 1959. Slightly less than 25 percent of the families had incomes under $3,000. Those families having incomes in the $5,000 to $10,000 range accounted for 22 percent of the total number of families in the country. Families receiving $10,000 or more made up 12 percent.

Although there still was a large number of families in the lower ranges of the income scale in 1959, the number had decreased markedly from 1947. Only 10 million families reported incomes of less than $3,000 in 1959 as compared with 18 million in 1947. The proportion of families with incomes under $3,000 fell from 50 percent in 1947 to less than 25 percent in 1959.

Rate of Population Increase Falls

Data recently released by the Bureau of the Census indicate that the rate of population increase in the United States, excluding Alaska and Hawaii, reached its postwar peak of 1.94 percent during the year ending June 30, 1947. Thereafter the high in the rate was 1.80 percent in 1956-57, from which it fell to a postwar low of 1.59 percent in 1959-60.

The natural rate of growth per 1,000 of the population during the last decade rose from 14.8 in 1950-51 to a peak of 16.0 in 1956-57, and then dropped to 14.3 during the twelve months ending July, 1960. Most of the changes that have occurred in the natural rate of growth during the decade have reflected changes in the birth rate. The birth rate per 1,000 of the population was 24.5 in 1950-51; it increased to a peak of 25.2 in 1956-57 and then fell to 23.7 in 1959-60.

LOCAL ILLINOIS DEVELOPMENTS

A Study of Public Works in Illinois

A study conducted by Jerome L. Kaufman entitled *Public Works Planning and Development in Illinois* has recently been published by the University of Illinois Bureau of Community Planning. The study shows that there are thirty different types of Illinois governmental units making public works decisions, more than in any other state in the nation. Illinois also ranks among the top three in the number of local municipalities and special districts. The result is a highly disjointed system of governmental responsibility for public works development, giving rise to numerous conflicts, duplications of effort, and inefficiencies.

The study further indicates that the State is the most influential governmental unit in determining the scale and character of public works activity in Illinois. However, the state government currently lacks a central planning agency.

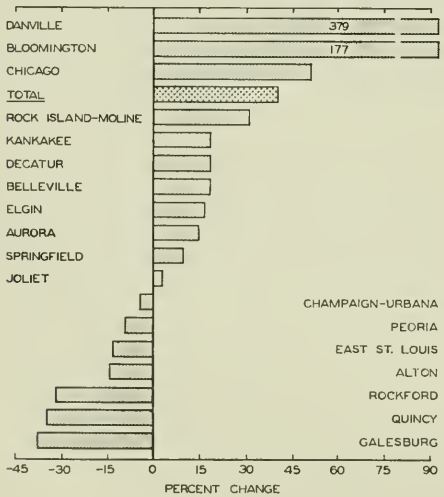
The study contends that the county government is the logical unit for planning and developing public works on a regional basis, but it is improperly organized to meet its responsibilities fully at the present time.

Gains in Building Permit Valuation

The total building permit valuation of twenty major cities in Illinois rose to a record high of $559 million in 1960, a gain of 40 percent from the $400 million valuation in 1959. More than half of the selected cities recorded gains during the year (see chart). The largest increases occurred in Danville, Bloomington, and Chicago, which jumped 379 percent, 177 percent, and 50 percent respectively.

These large increases were due mainly to one or a few unusually large projects in each of the cities. For example, three new junior high schools and the expansion of the Hyster Company plant accounted for about 40 percent of Danville's total permit valuation of $10 million in 1960. In Bloomington the new Illinois Agricultural Association building accounted for nearly 50 percent of the city's $13 million permit valuation for the year. In the case of Chicago, housing projects under the direction of the Chicago Housing Authority, four new office buildings, and construction projects at O'Hare Airport made up a substantial part of the city's $442 million building permit valuation in 1960.

CHANGES IN BUILDING PERMIT VALUATIONS, 1959 TO 1960



Sources: Local sources.

The total value of construction contracts in the State amounted to $2,098 million in 1960, only 1.5 percent higher than in 1959. Construction contract figures include projects that are not included in the building permit valuation figures, such as street, highway, and bridge construction, and they cover the whole State instead of selected areas within the State. These two factors account to a large extent for the difference between the two figures. In 1960 the nonresidential sector of construction contracts in the State rose 28 percent to a total of $829 million, whereas the residential sector dropped to $866 million, 12 percent below that of 1959.

An error was reported in the November building permit valuation figure for Rock Island and Moline which appeared in the January issue of the *Review*. The figure should be $1,159,000, and the twenty-city total should be reduced to $40,795,000.

Illinois Farms

Among the important changes that have occurred in Illinois agriculture during the past twenty years are the pronounced increase in the size of farms and the accompanying decrease in the number of farms. The 1960 Farm Census conducted by the Illinois Cooperative Crop Reporting Service indicated that the average size of a farm in the State was 190 acres in 1960, about 40 acres larger than in 1940. At the same time, the number of farms has decreased from 213,000 in 1940 to 140,000 in 1960, a drop of about 35 percent. The decline was largely due to consolidation of farms and to a lesser extent to a reduction in total farm land. Since 1940 the total farm land in Illinois has decreased from 31.0 million acres to 30.4 million acres.

Mineral Production in Illinois

According to preliminary estimates of the Illinois State Geological Survey, total value of mineral production in the State amounted to $588 million in 1960. This represents a 3 percent decline from the 1959 level and the first time in five years that Illinois mineral production has dropped below the $600 million level.

In 1960 petroleum continued to be the state's leading mineral with a production of 78 million barrels valued at $238 million, up $3 million from 1959. The value of the output of coal, the second most valuable mineral product of the State, was up $2 million over 1959 to $186 million. These two leading minerals accounted for nearly 75 percent of the state's total value of mineral production and were the only ones to experience increases over 1959.

The total value of stone products — crushed stone, cement, and lime — was about $75 million as compared with $86 million in 1959. Last year's output of sand and gravel was valued at nearly $29 million, down more than $4 million from the previous year. The clay products industry produced $52 million of material, but it was still about $7 million short of the 1959 output. Fluorspar, lead, and zinc production combined amounted to $11 million as compared with $13 million in 1959.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

December, 1960

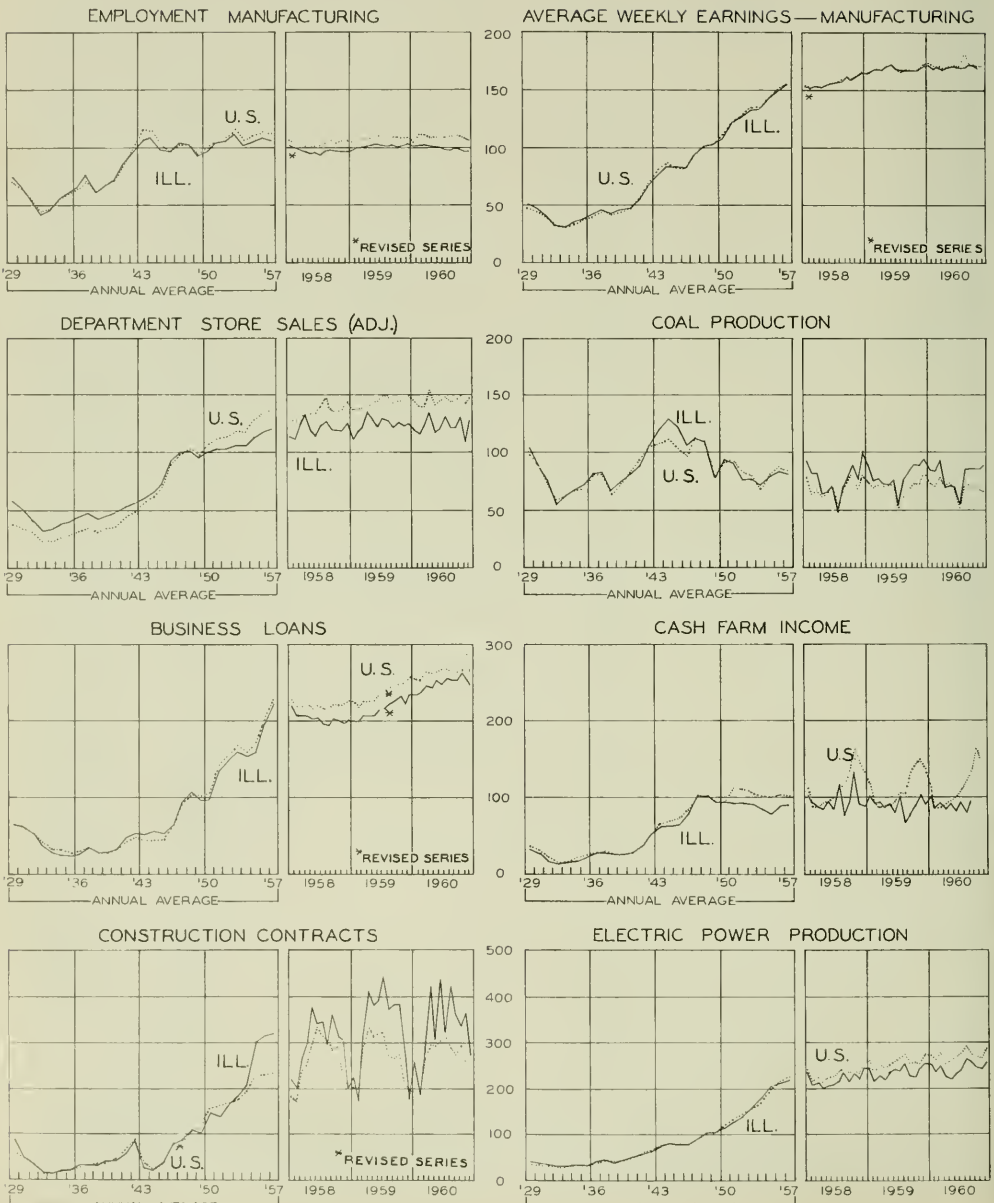
		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$65,226[a]	1,271,461[a]	$546,872[a]		$21,051[a]	$21,701[a]
Percentage change from	Nov., 1960	+59.9	+4.5	−3.5	+59	+12.4	+14.0
	Dec., 1959	+170.8	−1.6	−2.7	+3	+2.9	+5.4
NORTHERN ILLINOIS							
Chicago		$60,300	934,228	$396,816		$19,498	$18,911
Percentage change from	Nov., 1960	+134.1	+5.6	−3.8	+60	+13.2	+13.6
	Dec., 1959	+239.4	−2.5	−2.9	+4	+3.3	+6.0
Aurora		$ 283	n.a.	$ 8,812		$ 88	$ 176
Percentage change from	Nov., 1960	−85.5		−8.0	+59	+5.2	+10.4
	Dec., 1959	−78.8		−8.2	+4	+1.9	−7.0
Elgin		$ 146	n.a.	$ 6,557		$ 58	$ 195
Percentage change from	Nov., 1960	−53.2		+3.8	n.a.	+10.4	+24.9
	Dec., 1959	−24.4		−6.1		+8.5	+28.7
Joliet		$ 190	n.a.	$10,906		$ 94	$ 140
Percentage change from	Nov., 1960	−61.1		+3.5	+75	+6.3	+20.3
	Dec., 1959	−16.7		+4.5	−5	−4.4	−0.6
Kankakee		$ 41	n.a.	$ 4,915		n.a.	$ 77
Percentage change from	Nov., 1960	−84.0		−1.4	n.a.		+16.9
	Dec., 1959	−75.3		−4.4			+2.5
Rock Island-Moline		$ 1,222	28,544	$10,820		$ 134[b]	$ 221
Percentage change from	Nov., 1960	+5.4	+10.2	−0.5	n.a.	+6.3	−5.8
	Dec., 1959	+18.4	−1.5	−10.4		+4.3	+0.0
Rockford		$ 264	53,451[c]	$18,593		$ 218	$ 308
Percentage change from	Nov., 1960	−83.2	−13.9	+1.0	+71[c]	+1.4	+27.4
	Dec., 1959	−69.3	+1.4	−0.1	−1[c]	−0.8	+0.2
CENTRAL ILLINOIS							
Bloomington		$ 195	11,659	$ 5,700		$ 77	$ 131
Percentage change from	Nov., 1960	−10.1	+9.7	−3.4	n.a.	−5.1	+2.0
	Dec., 1959	−0.5	+7.4	+3.3		−2.4	+6.0
Champaign-Urbana		$ 404	16,168	$ 8,305		$ 83	$ 165
Percentage change from	Nov., 1960	−4.5	+7.2	−12.1	n.a.	−6.6	+16.8
	Dec., 1959	+165.8	+3.1	−1.3		+1.0	+17.0
Danville		$ 430	14,918	$ 6,610		$ 53	$ 98
Percentage change from	Nov., 1960	+137.6	+4.4	+1.6	+65	+5.0	+26.4
	Dec., 1959	+228.2	+6.9	+11.7	−4	+3.1	+8.7
Decatur		$ 405	36,478	$10,995		$ 123	$ 146
Percentage change from	Nov., 1960	−92.4	−2.7	−8.0	+68[c]	+2.8	+22.6
	Dec., 1959	−42.2	+0.2	−3.4	−3[c]	−1.0	−5.7
Galesburg		$ 78	9,769	$ 4,204		n.a.	$ 52
Percentage change from	Nov., 1960	−44.3	+3.3	−4.9	n.a.		+1.2
	Dec., 1959	−42.2	+1.4	−6.8			−11.4
Peoria		$ 557	57,627[c]	$17,125		$ 235	$ 439
Percentage change from	Nov., 1960	+75.7	+5.3	+2.8	+47	+5.1	+25.7
	Dec., 1959	+27.8	−5.7	−4.4	−3	−7.4	+0.3
Quincy		$ 118	13,329	$ 6,247		$ 52	$ 90
Percentage change from	Nov., 1960	−60.5	−1.5	+13.5	+60	+0.1	+14.2
	Dec., 1959	−28.9	+14.0	+19.9	−1	−3.9	+0.6
Springfield		$ 267	43,250[c]	$12,793		$ 135	$ 326
Percentage change from	Nov., 1960	−86.8	+12.8	−8.8	+50[c]	+3.0	+7.4
	Dec., 1959	−3.3	+8.6	−6.0	+1[c]	−7.2	−1.5
SOUTHERN ILLINOIS							
East St. Louis		$ 95	17,998	$ 8,703		$ 157	$ 99
Percentage change from	Nov., 1960	+69.6	+5.1	−3.5	n.a.	+9.7	+28.8
	Dec., 1959	+48.4	+11.1	+5.5		−2.1	−5.5
Alton		$ 61	21,570	$ 5,019		$ 47	$ 52
Percentage change from	Nov., 1960	−72.5	+1.0	−2.8	n.a.	+5.3	+19.8
	Dec., 1959	−59.1	−12.1	−0.6		−0.7	−1.0
Belleville		$ 170	12,473	$ 4,750		n.a.	$ 73
Percentage change from	Nov., 1960	+146.4	+1.0	−1.6	n.a.		+38.4
	Dec., 1959	+80.9	+2.4	+5.0			+0.7

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for November, 1960. Comparisons relate to October, 1960, and November, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending December 9, 1960, and December 11, 1959.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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VOLUME XVIII MARCH, 1961 NUMBER 3

HIGHLIGHTS OF BUSINESS IN FEBRUARY

The economy continued along its downward path in February. A slight pickup in retail sales was reported, but production showed no improvement. Department store sales rose 5 points to 147 percent of the 1947-49 average, and the daily average rate of deliveries of domestically produced automobiles by dealers advanced 2 percent to 15,011 units. The seasonally adjusted index of industrial production held steady at 102 percent of the 1957 average. Unemployment rose to 5.7 million, the increase of 320,000 amounting to three times the normal rise over January. As a consequence, the seasonally adjusted rate of unemployment advanced to 6.8 percent. Despite these developments, the stock market continued to rise.

Construction Continues Down

The $3.6 billion of new construction put in place in February was down 1 percent from January on a seasonally adjusted basis and the same percentage below February, 1960. All of the decline was attributable to private construction. Compared with February, 1960, private construction was down 6 percent and public construction was up 13 percent.

Nonfarm residential building accounted for all of the decline in private construction in excess of the normal seasonal curtailment, having fallen 8 percent from January to $1.3 billion. Most other types of private construction showed less-than-seasonal declines and were above February, 1960. Nearly all types of public construction were up from the year-earlier month.

Capital Expenditures Decreased

Business firms have reduced their earlier estimates of investments in new plant and equipment for the first quarter of this year to an annual rate of $34.4 billion. This is $500 million below the estimated first quarter annual rate published three months ago and $1.1 billion below the actual rate for the preceding quarter. Estimates for the second quarter of 1961 indicate a further decline of $600 million in the annual rate.

However, firms presently expect an upturn in their capital expenditures during the second half of 1961. In this they repeat the pattern of 1960, when early predictions of a continued advance were disappointed by the recession. Their plans now call for total outlays on plant and equipment of almost $34.6 billion for the year as a whole. Although this would be 3 percent below 1960, it implies a second-half rate of $35.0 billion if the estimates for the first two quarters are accurate.

Among the major industry groups, public utilities report the largest percentage increase in planned 1961 investment over actual 1960 outlays, with a projected rise of 10 percent to $6.2 billion. Railroads plan the biggest cutback, a drop of 42 percent to $600 million, the lowest level for the industry in fifteen years. Manufacturers as a whole expect 1961 outlays to be down 3 percent to $14.1 billion.

Further Drops in Sales and Inventories

Sales by manufacturing and trade firms in January totaled $58.5 billion after seasonal adjustment. This was $900 million below December, 1961, and the lowest in nearly two years. A decline of $500 million in shipments by manufacturers accounted for most of the shrinkage, but retailers' sales, down $300 million, showed the same percentage fall. Sales by wholesalers were off $100 million. Both durable and nondurable goods were affected. New orders received by manufacturers were down $300 million to $28.4 billion.

Retailers reduced their inventories of durables $300 million, most of the cut being made by auto dealers. Manufacturers curtailed their stocks $100 million as an increase in finished nondurable goods was more than offset by a decrease in finished durable goods.

Consumer Debt Contracts

A seasonally adjusted decline of $148 million in outstanding automobile paper dominated changes in consumer debt during January. It largely accounted for the first month-to-month drop in instalment debt in more than two years and reflected the low rate of auto sales in January. When combined with seasonally adjusted increases in other consumer goods paper and in personal loans and a small decrease in repair and modernization loans outstanding, the net result was a reduction of $103 million in instalment debt to $42.8 billion.

Noninstalment debt expanded $5 million, as a large increase in single-payment loans and a smaller one in service credit more than offset a seasonally adjusted decline of $111 million in charge accounts. As a result, total consumer debt was reduced $98 million. At the end of January, consumers owed on short- and intermediate-term accounts a total of $55.0 billion, $3.6 billion more than they did a year earlier.

TAXATION, INDUSTRIAL LOCATION, AND TAX REFORM · By John F. Due · Page 6

ILLINOIS BUSINESS REVIEW

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BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

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Social Security Expansion

We seem to be forgetting:

— that social security was created in a depression beyond the control of the government. Unemployment averaged 10½ million in 1935 and was still 9½ million in 1939.

— that in its early years social security was a deflationary factor in the over-all economic picture. The imposition of the payroll taxes helped bring on the recession of 1937-38.

— that social security was not intended to do everything. It was designed to deal with certain well-defined needs, providing some benefits as a matter of right but others only where need could be demonstrated.

In the quarter century since passage of the first social security act, the program has been tremendously expanded in scope and coverage. The trend is continuing. Included in the first legislative proposals of the Kennedy Administration are two measures for further expansion. The first would extend unemployment compensation payments from 26 to 39 weeks as an emergency measure to prevent the recession from deepening. The second would provide medical care for the aged under the old age, survivors, and disability insurance program as a permanent increase in the scope of that program.

Extended Unemployment Compensation

The case for the extension of unemployment compensation is clear cut when looked at from the payments' side alone. Unemployment has risen sharply; some 600,000 workers have already exhausted their 26-week benefit rights; and by the program's terminal date of June 30, 1962, the number exhausting such benefits is expected to reach 3 million. The special advantage of this program is that it puts additional funds into the hands of those who need it most — in contrast, for example, to proposed tax remissions, which would merely leave more funds with those who still had good incomes.

In approving this program, Congress wanted neither to minimize the immediate effect by adding to current taxes nor to burden the government budget. Financing is therefore provided on the instalment plan, in the form of a tax of 0.4 percent on payrolls in calendar years 1962 and 1963. This tax would presumably cover the costs and also replenish reserves for future recessions. However, there is no assurance that conditions will justify any tax increase at that time. Although the proposal as a whole may be regarded as a step in the right direction, the specific form it has taken shows all the earmarks of temporizing with the most convenient expedients.

A difficulty which unemployment compensation shares with most of the other "built-in stabilizers" is that its maximum effect comes early in a recession and begins to dwindle after a temporary peak has been passed. Since it is probably the most efficient means available for cushioning a decline, the best policy would look toward enlarging its contribution as a decline progressed. A method of accomplishing this was proposed by J. K. Galbraith in his book, *The Affluent Society*. It would provide for extending payment periods and increasing rates of compensation as the percentage of unemployed rose, and for letting them decrease again after the depression was over. Taxes would cover the entire cost but, being averaged over a period, would have no great effect on emergency payments made from the reserves accumulated in good times. Efforts to reduce taxes in good times or to prolong high payments after recovery would, of course, have to be resisted, and with these safeguards there would be a stabilizing effect through long as well as short declines.

Medical Aid for the Aged

The proposal to expand medical aid for the aged also has clear justification in terms of need. Persons over 65 are increasing in the total population in proportion as well as in numbers. They use two or three times as much hospital care as younger persons, and their incomes are not only lower but often fixed or declining. Many are already dependent upon public assistance for their medical care, but this assistance is widely held to be inadequate. Expenditures by this group will be rising in any case. With an insurance program to pay the costs, the services demanded will no doubt expand sharply.

When looked at from the supply side, the prospect is less rosy. There is no unemployment in the medical profession. Rather, existing resources are somewhat overworked. Although the imposition of higher loads may speed up the provision of additional resources — as would other proposed steps for medical training and construction — expansion in this area is a slow process. In the interim, the distortions of medical standards that have accompanied the growth of voluntary health insurance (see *Illinois Business Review*, October, 1960) would probably have similar effects in promoting waste and excesses. Limited facilities would be tied up through prolonged use by the elderly and become less available to other patients.

Although financing of this program is deferred to 1962-63, there would be little stimulating effect on the economy. Medical costs will be inflated still more, but there will not necessarily be much higher spending from already inflated incomes. On the other hand, this proposal also calls for increases in the highly regressive payroll taxes. This means that wage earners generally will be burdened in order that a minority may be freed from the necessity for applying for other assistance. When these taxes become effective, their deflationary effect will probably outweigh the inflationary effects of higher medical expenditures, so that on balance the program may put an additional drag on an economy that is already experiencing inadequate growth.

The economic consequences of these two proposals are evidently quite different. The two join, however, in raising a common issue about how widely instalment-

(Continued on page 8)

CEMENT PRODUCTION

Cement has been a powerful influence on modern construction, particularly in recent decades. With its economy, durability, and versatility, it has become one of the most essential raw materials in construction today, finding some utilization in nearly every engineering and architectural project undertaken.

The cement now commonly used is a relatively recent development. Although various crude cements, some possessing remarkable cohesive powers, had been employed in different societies since prehistoric times, most lacked either durability, uniformity, or adhesive strength because of the natural variations in the proportions of essential cementing chemicals used. These problems were not overcome until the late eighteenth and early nineteenth century when significant headway was made toward producing a strong cement that would harden under water, called hydraulic cement. Most important of the developments that led to this was the English discovery of a method in 1824 for making portland cement, so named because of the product's resemblance to stone quarried on the Isle of Portland in England. The portland cement process, which forms the basis for the manufacture of virtually all cement now produced in the United States, revealed for the first time that two types of carefully proportioned raw materials and two separate grinding operations were necessary for efficient hydraulic cement.

How Cement Is Made

A highly mechanized process, cement manufacture requires a series of operations, which are fully automated. Most mills are located near the source of raw materials, which are calcium, silica, alumina, and iron oxides. These materials are primarily obtained from minerals, such as limestone, shale, oyster shells, clay, marl, iron ores, and silica sand.

The materials, which may be quarried in blocks as large as a piano, are first reduced to a suitable size, blended, and then ground into particles as small as 1/20 to 1/200 inch. These particles are placed in a tube-like kiln, which may be 12 feet in diameter and 500 feet long. As the kiln revolves, the blended materials roll and tumble downward, gradually being exposed to more intense heat that reaches as high as 3,000° F. As the heat increases, gases are driven off, changing the original minerals into new minerals in the shape of a marble-sized white-hot "clinker." The clinker, which becomes harder than the rock from which it was produced, is cooled and then sent through a series of grinding machines until an extremely fine powder is produced. In the cooling stage, a retarder (gypsum) is added to regulate the setting time of the cement.

World Leader

Today, the United States accounts for about one-fifth of world output and is the international leader in cement manufacture. Nearly 334 million barrels of portland cement — each weighing 376 pounds — were produced in 1959, a record production year despite a prolonged steel strike and reduced requirements of concrete for the federal highway construction program. Shipments of portland cement in 1959 were valued at $1.1 billion, more than 75 percent above the 1950-54 average.

Because of the heavy capital outlays required for cement production, the industry today consists mainly of a small number of giant units. The size of these establishments is indicated by the fact that the typical plant in 1959 employed about 240 persons and shipped a product valued at nearly $6 million. Moreover, of the 172 mills in operation during 1958, more than half were controlled by the eight largest firms, which together accounted for about 55 percent of the total 390 million barrel capacity.

Highways and nonresidential building together take nearly one-half of annual cement shipments. Other major uses, amounting to about 10 percent each, are utilities, military construction, housing, and maintenance and repair. Other types of construction account for most of the remainder.

Illinois Industry

Illinois is a leading cement producer. As in a number of states, the output is produced entirely by a few large plants. There are four mills in Illinois, all found in the northern part of the State. Two are at Oglesby, one at Dixon, and one at La Salle.

Largest of these plants is the Marquette Cement Manufacturing Company, Oglesby, which accounts for 43 percent of the state's 10 million barrel annual capacity. The other three plants, all with capacities exceeding 1.5 million barrels, are the Medusa Portland Cement Company, Dixon; Lehigh Portland Cement Company, Oglesby; and the Alpha Portland Cement Company, La Salle. In 1959, these four mills, which together employ about 1,250 persons, shipped more than 9.5 million barrels of finished portland cement valued at $30 million.

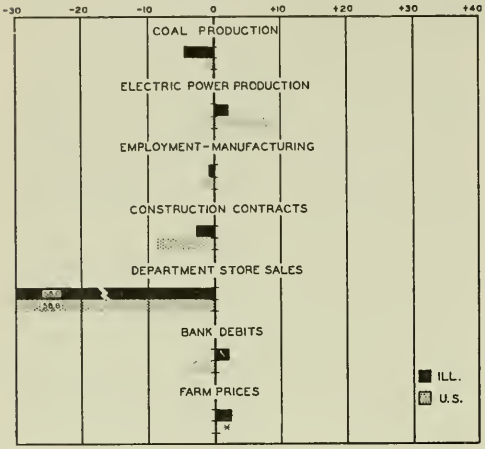
Because the two major costs in cement manufacture are transportation and fuel, the industry obtains greater economies by locating near its markets since suitable raw materials, particularly limestone, are found in most parts of the nation. Thus, the population density and high construction activity particularly of the Chicago area, plus the ample raw material supplies, largely explains the concentration of the industry in the northern part of the State.

Illinois, a heavy consumer of cement, annually uses twice the amount produced by the four mills in the State. Moreover, this demand has been on the upswing. The consumption of finished cement in the State increased 57 percent to 18 million barrels between 1950 and 1959, compared with a 47 percent rise nationally during the same period. Contributing to the growth here, as well as nationally, have been the sharp increases in road and building construction, the diversity of newer architectural uses of cement, such as with precast (or semi-fabricated forms), and improved techniques and equipment used in cement production.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes December, 1960, to January, 1961



* No change.

ILLINOIS BUSINESS INDEXES

Item	Jan. 1961 (1947-49 =100)	Percentage change from Dec. 1960	Percentage change from Jan. 1960
Electric power[1]	265.2	+ 2.2	+ 4.8
Coal production[2]	83.9	− 4.5	− 1.2
Employment—manufacturing[3]	94.4	− 0.8	− 7.9
Weekly earnings—manufacturing[3]	173.0[a]	+ 1.5	+ 0.1
Dept. store sales in Chicago[4]	119 0[b]	− 6.3	− 2.5
Consumer prices in Chicago[5]	130.4	− 0.2	+ 1.2
Construction contracts[6]	265.6	− 2.7	+ 2.9
Bank debits[7]	245.8	+ 2.1	+17.8
Farm prices[8]	83.0	+ 2.5	+ 9.2
Life insurance sales (ordinary)[9]	251.3	−27.7	+ 2.0
Petroleum production[10]	122.0	− 3.1	− 0.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Data for December, 1960, compared with November, 1960, and December, 1959. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Jan. 1961	Percentage change from Dec. 1960	Percentage change from Jan. 1960
	Annual rate in billion $		
Personal income[1]	406.3[a]	− 0.1	+ 2.7
Manufacturing[1]			
Sales	343.2[a]	− 1.7	− 8.0
Inventories	53.5[a, b]	− 0.2	+ 0.4
New construction activity[1]			
Private residential	17.2[c]	−15.9	−11.6
Private nonresidential	15.8[c]	− 7.6	+ 5.5
Total public	13.0[c]	−20.2	+14.5
Foreign trade[1]			
Merchandise exports	21.6[d]	− 0.0	+ 7.3
Merchandise imports	13.9[d]	− 0.3	−21.7
Excess of exports	7.7[d]	+ 0.6	+225.1
Consumer credit outstanding[2]			
Total credit	55.0[b]	− 1.8	+ 7.1
Instalment credit	42.8[b]	− 1.2	+ 8.7
Business loans[2]	35.8[b]	− 3.8	+ 3.7
Cash farm income (rev.)[3]	37.5[d]	−15.9	+ 4.3
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	102[a, e]	− 1.0	− 6.4
Durable manufactures	95[a, e]	− 1.0	−14.4
Nondurable manufactures	110[a, e]	− 1.8	− 2.7
Minerals	98[a, e]	+ 1.0	0.0
Manufacturing employment[4]			
Production workers	94	− 0.8	− 7.5
Factory worker earnings[4]			
Average hours worked	97	0.0	− 4.2
Average hourly earnings	174	0.0	+ 1.3
Average weekly earnings	169	0.0	− 3.0
Construction contracts[5]	218	− 8.6	+13.3
Department store sales[2]	142[a]	− 3.4	− 2.7
Consumer price index[4]	127	− 0.1	+ 1.6
Wholesale prices[4]			
All commodities	119	+ 0.3	+ 0.4
Farm products	90	+ 1.1	+ 3.7
Foods	110	+ 0.5	+ 4.0
Other	128	+ 0.2	− 0.5
Farm prices[3]			
Received by farmers	89	0.0	+ 3.5
Paid by farmers	120	+ 0.8	0.0
Parity ratio	80[f]	− 1.2	+ 2.6

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for December, 1960, compared with November, 1960, and December, 1959. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961					1960
	Feb. 25	Feb. 18	Feb. 11	Feb. 4	Jan. 28	Feb. 27
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,096	1,222	1,227	1,213	1,171	1,373
Electric power by utilities mil. of kw-hr.	14,239	14,315	14,744	15,072	15,361	14,092
Motor vehicles (Wards) number in thous.	122	98	111	124	116	186
Petroleum (daily avg.) thous. bbl.	7,207	7,167	7,174	7,137	7,198	7,318
Steel 1947-49 =100	92	92	88	87	85	156
Freight carloadings thous. of cars	468	502	486	498	476	553
Department store sales 1947-49 =100	122	115	111	106	103	110
Commodity prices, wholesale:						
All commodities 1947-49 =100	119.9	120.0	120.0	120.0	119.9	119.3[a]
Other than farm products and foods 1947-49 =100	128.2	128.2	128.1	128.2	128.1	128.7[a]
22 commodities 1947-49 =100	84.4	84.3	84.2	83.7	83.1	83.3
Finance:						
Business loans mil. of dol.	31,248	31,289	31,045	31,067	31,150	30,178
Failures, industrial and commercial number	348	374	376	368	400	277

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for February, 1960.

RECENT ECONOMIC CHANGES

Rise in Farm Income

Net farm income, including government payments and the net change in farm inventories, rose slightly to $12.0 billion in 1960 from $11.8 billion in 1959. Almost all of the gain resulted from a larger volume of farm marketings. The Agriculture Department reported that 32 states shared in the advance, led by Maine where average farm income jumped 98 percent to $3,084 per farm. For the country as a whole, net income averaged $2,646 per farm, up 4 percent from the previous year.

On a per capita basis, income from farming rose to $657 last year from $644 in 1959. This was supplemented by income earned by farmers in nonfarm jobs. Such earnings, which have been rising steadily in the postwar period (see chart), amounted to $329 in 1960, compared with $321 in 1959. As a percentage of the total, average income from nonfarm sources has risen from 20 percent in 1946 to 33 percent last year.

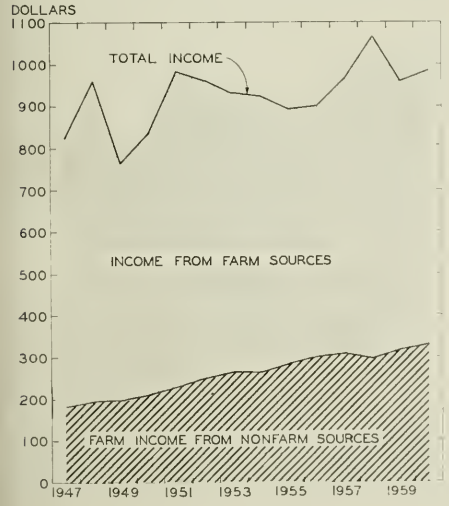
Total farm income from all sources averaged about $986 in 1960, compared with the average income for the nonfarm population of $2,282. For the entire population, income averaged $2,131 per capita in 1960.

Machine Tool Demand Falls

Net new orders for metal-cutting machine tools fell to $35 million in January, down 26 percent from $47.4 million in December and 19 percent below January, 1960. The January level was the lowest since last July.

The weakness in total net new orders, however, does not accurately reflect the extent of the reluctance of United States manufacturers to place orders for new machinery, since foreign demand continues to grow as a strong element in the total. In January orders from foreign manufacturers amounted to $14.5 million, about 41 percent of the total. Domestic orders for cutting tools, on the other hand, totaled $20.5 million in January, the lowest since November, 1958, when they fell to $18.9 million.

PER CAPITA NET FARM INCOME



Source: U.S. Department of Agriculture.

Gross National Product

The nation's output of goods and services reached $503 billion last year, an increase of $21 billion, or 4.9 percent, over 1959. After adjustment for price changes the gain amounted to 3 percent.

On a quarterly basis, the dollar value of gross national product rose through the first two periods to a peak seasonally adjusted annual rate of $505 billion at midyear. In the final two quarters GNP fell back to a rate of $503.5 billion.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(Billions of dollars)

	1960	*1959*	*4th Qtr. 1960**
Gross national product	503.2	482.1	503.5
Personal consumption	327.8	313.8	330.8
Durable goods	43.6	43.4	43.2
Nondurable goods	152.4	147.6	152.9
Services	131.7	122.8	134.7
Domestic investment	72.8	72.0	66.0
New construction	40.4	40.3	40.3
Producers' durable equipment	28.8	25.8	28.7
Change in business inventories	3.6	5.9	−3.0
Nonfarm inventories only	3.2	5.4	−3.4
Foreign investment	3.0	−1.0	4.6
Government purchases	99.7	97.1	102.1
INCOME AND SAVINGS			
National income	417.9	399.6	n.a.
Personal income	404.2	383.3	408.5
Disposable personal income	354.2	337.3	358.1
Personal saving	26.4	23.4	27.2

* Seasonally adjusted at annual rates.
Source: U.S. Department of Commerce.

Final demand advanced in every quarter during 1960, rising from an annual rate of $482 billion in the final three months of 1959 to over $506 billion in the fourth quarter last year. Declines in fixed investment after midyear were more than offset by continued gains in consumer and government purchases.

The inventory picture, however, was more volatile. After reaching an accumulation rate of $11 billion in the first quarter, demand weakened steadily, and in the final quarter of 1960 nonfarm inventories were being liquidated at a $3.4 billion annual rate.

Unemployment

Unemployment continued to rise in February as 320,000 persons were added to the jobless list. This increase pushed the total of unemployed to more than 5.7 million, the highest level since the summer of 1941. The previous postwar high occurred in June, 1958, when 5.3 million workers were without jobs. The latest advance raised the seasonally adjusted rate of unemployment to 6.8 percent of the labor force.

Labor Department data, in thousands of workers, are as follows:

	Feb. 1961	*Jan. 1961*	*Feb. 1960*
Civilian labor force	70,360	69,837	68,449
Employment	64,655	64,452	64,520
Agricultural	5,242	4,634	4,619
Nonagricultural	59,413	59,818	59,901
Unemployment	5,705	5,385	3,931
Seasonally adjusted rate	6.8	6.6	4.8

TAXATION, INDUSTRIAL LOCATION, AND TAX REFORM

JOHN F. DUE, Professor of Economics

For many years a major issue in the field of taxation has been that of the effect of state-local taxation upon industrial development. When Governor Kerner proposed increases in the Illinois corporate franchise tax in January, the usual reaction, employed traditionally in every state under like circumstances, came at once: the proposed increase would drive industry out of the State and stifle economic development. Supporters of the program were quick to insist that taxation has no effect on location. What is the evidence as to the actual influence of taxation upon location of industry? And what role should this influence play in tax reform?

Studies of Tax Impact on Location

A number of empirical studies have sought to ascertain the actual impact of state-local tax differences upon industry location, by comparing rates of industrial growth and relative tax burdens by state. Many of the earlier studies were too crude to be of practical importance, but some of the recent ones using modern statistical techniques, have brought conclusions of greater significance. An Iowa study by C. C. Bloom, *State and Local Tax Differentials* (1956), compared relative growth rates in manufacturing employment and investment in various states with relative state-local tax burdens, and found that the most rapid growth in manufacturing had occurred in the states with relatively higher rather than lower tax burdens.

A much more elaborate study by W. R. Thompson and J. M. Mattila, entitled *An Econometric Model of Postwar State Industrial Development* (Wayne State University Press, 1959), considered only taxes imposed directly on business but found similar results: there was no evidence that differences in state-local business tax burdens had any influence upon relative economic growth in various states. Even the most casual observations indicate that several states of rapid industrial growth in recent decades, such as California, Georgia, and Kentucky, are ones which place relatively heavy tax burdens on business and employ corporate income taxes.

These studies are of course by no means conclusive; they are concerned with economic growth as a whole and not solely with manufacturing, the type of activity most likely to be affected by taxation. And the most modern scientific techniques of analysis cannot provide an answer to the question, Would the high tax areas have grown even more rapidly had the taxes been lower? But they certainly do provide strong evidence that the oft-repeated statements about high taxes having disastrous effects upon a state are completely unfounded.

A number of studies have analyzed the relationship between state and local taxes and total manufacturing costs. A Michigan study showed that state taxes constituted about one-half of 1 percent of total manufacturing costs, and state and local taxes combined a little over 1 percent. Michigan is a relatively high-business-tax state, as is Minnesota, where the similar figure is about .9 percent. A comparison between Michigan and Illinois showed a state tax differential equal to only .3 percent of total costs, although the former is well known as a high tax state and the latter as a low tax state.

The very low ratio of state taxes to total costs does not prove that taxes have no effect upon location. But it strongly suggests that taxes cannot be significant in any large number of cases as a factor offsetting the large variation which occurs in wage, materials, fuel, power, transportation, and other costs. A very small percentage differential in these items will produce a much greater cost differential than a very large percentage differential in taxes.

Other students of the problem have attempted to assess the significance of various factors affecting location by interviews with corporation officials. The results of the general surveys are similar, and one by *Business Week* in 1958, entitled "Plant Site Preferences of Industry and Factors of Selection," is representative. A survey of a large number of manufacturing firms produced some 747 references to factors influencing location decisions; only 5 percent mentioned taxes.

A sample of Michigan manufacturers was asked to specify the factors which they found disadvantageous in a Michigan location. Despite all the discussion of high taxes in that state, only 9 percent mentioned taxes. (W. Haber, *The Michigan Economy*, 1959, p. 178.)

Some of the most convincing statements about the role of taxation in location are those of Maurice Fulton, an official of a major factory-locating service in the United States, an organization which probably has more day-to-day contact with actual business location decision-making than any other in the country. He states (in P. McCracken, ed., *Taxes and Economic Growth in Michigan*, 1960, p. 62): ". . . tax costs, primarily state tax costs, are rarely, if ever, the principal factor in plant location. They are one of many considerations affecting the decision." In a study by his organization of a number of actual plant location decisions, the conclusion was reached that "in every case state taxes are the least significant of all factors" (p. 71). He does recognize the possible effect of taxes on the general business image of a state, as discussed below.

When business executives are asked specifically about the significance of taxation for location, in a survey which they know is directly concerned with taxes, the tax response is somewhat higher. A Massachusetts survey (a state also known for high business taxes) asking specifically if state and local taxes had ever influenced location decisions elicited an affirmative response from 19 percent. (J. D. Strasma, *State and Local Taxations of Industry*, Federal Reserve Bank of Boston, 1959.) However, while these results are of some significance, they are not very conclusive, since the vigorous anti-tax attitude of so many businessmen today conditions them to this type of an answer, and the replies give no indication of whether taxes played a crucial role in the decision, or were merely one factor.

Why Taxes Have Limited Significance

The obvious conclusion of these various approaches to the problem, although one not based on completely scientific evidence, is that state taxation plays a minor role in industrial location and economic development in particular areas. For this conclusion there are several rather obvious reasons. A major one, as noted above, is the fact that state taxes constitute such a small percentage of total costs that they cannot be a deciding influence in any significant number of cases, given the great variation in other major cost elements. Many business firms have very little choice, given the nature of their business,

which attaches them firmly to their market or to raw materials. Secondly, the deductibility of state taxes from income subject to federal income taxes cuts in half any differential which otherwise exists for the typical firm subject to federal income taxes at a marginal rate of 52 percent. Thirdly, responsible business executives are well aware that higher tax rates may be offset by more adequate services of direct benefit to the enterprise, its executives, and employees.

Finally, for long-range decisions relating to location, the relevant tax factor is not that of present taxes alone but of taxes over the period of life of the facilities. Low taxes today are not significant if there is great danger of sharp increases or general uncertainty about future tax trends. In this respect states with broad, well-balanced, generally accepted tax structures are more favorable than ones with narrow-based taxes which are subject to constant complaint and pressure for change.

These conclusions do not deny that taxation may have some effect. There are two principal avenues. First, there are certain to be a few marginal cases in which taxation will be the deciding influence, since other forces will balance out. For reasons noted, these situations are not likely to be numerous, although the exact number is impossible to estimate. State taxes are most likely to be relevant when the general area dictated by basic location factors straddles a state line. Relative local taxes will influence plant location as between adjacent municipalities where burdens differ noticeably.

Second, each state develops a certain general reputation or "image" in the eyes of the business community. The images are a reflection of a number of factors, including degree of unionization, state regulatory policies, workmen's compensation and unemployment compensation levies, state policy toward unions, avoidance of deficits, and finally, taxation affecting business.

Some states have built up an unfavorable image, others a very favorable one. Over the years, for example, it would appear that of the states with which Illinois is directly competitive for location, Michigan and Wisconsin have created unfavorable reputations, while Illinois, Indiana, Ohio, Kentucky, Tennessee, Mississippi, Iowa, Missouri, and the Carolinas have relatively clean slates. A primary influence of this image is to lead some firms to refuse to consider location in a particular state, without even bothering to calculate relative costs. In part this is a question of prestige in the eyes of other businessmen — to avoid such comments as "you must be crazy to build a new plant in state X."

Taxation is only a factor in this image, but it has definitely played some role. As between Wisconsin and Illinois, for example, the tax factor has, according to experts in the field of location familiar with specific decisions, led some firms to locate on the Illinois side of the border rather than the Wisconsin side. However, over the last fifty years, the over-all rate of industrial growth has not been significantly different in the two states, as shown by data assembled by the University of Wisconsin Tax Study Committee in their report, *Wisconsin's State and Local Tax Burden* (Madison: 1959, pp. 28-29).

The Current Illinois Tax Problem

The State of Illinois currently faces urgent need for additional state revenue to meet existing programs. Although some relatively simple changes, such as extending the scope of the sales tax, will improve the situation, they can scarcely be adequate to solve it. The State thus faces a basic dilemma. If no action is taken, a severe financial crisis, of the sort which has plagued Michigan in recent years, is certain to arise. But potential action is restricted by state constitutional provisions. Pending basic constitutional change, the State must choose between two general routes: an increase in the sales tax as the sole source, or use of a general business tax which will make some significant contribution to state revenue.

Although the sales tax is generally accepted as an appropriate source of revenue for the State, there is widespread resistance to continued sales tax increases as the sole solution to the state's financial problems, in light of the inequitable over-all distribution of burden of the tax. Only one state gains a higher percentage of its revenue from the retail sales tax than Illinois.

As a consequence, failure to take some steps toward a general business tax, while superficially beneficial to the business community, poses several serious dangers to it as well as to state finances. There will be constant pressure in the legislature to make changes, and constantly recurring debates over the issue, which will become more acrimonious as the financial pressure increases. Uncertainty as to final outcome could have more detrimental effect than a moderate tax. An impasse arising out of the determination of various groups to permit no further sales tax increases without the development of other levies could create a Michigan-type crisis, with consequent disastrous effects on the general business reputation of the State. And the longer that a reasonable business tax is resisted, the greater the dangers that supporters of such legislation will ultimately push through severe and essentially punitive measures. Finally, it should be noted that the sales tax itself has some adverse impact on business investment, since, unlike the other sales taxes in the major industrial states except California, the tax applies to purchase of new equipment by business firms, except custom-order items.

The use of some form of general business tax not only has merit in providing a broader tax base for the State, but also in ensuring a contribution from business firms, and indirectly from their owners (many of whom live outside the State) and consumers of their products, for the benefits received from the conduct of state activity. At present Illinois receives virtually nothing in the way of general tax revenue from business firms as such, yet these obviously benefit in many ways. Such a situation involves essentially a subsidy by the people of the State as a whole to business in the State, one which may not only be regarded as basically inequitable, but unjustifiable on any grounds.

General Business Tax Dangers Exaggerated

If Illinois follows the alternative of introducing a significant general business levy, it does run, of course, a limited risk of affecting a few investment decisions and of interfering somewhat with the good "image" of the State in the eyes of the business community. But, as noted, these dangers have without question been tremendously exaggerated by the opponents. Of our neighbors, Iowa, Kentucky, Missouri, Tennessee, and Mississippi all have corporate income taxes, yet none has built up an adverse image in the eyes of business. Indiana has a gross income tax affecting both business and individuals, and one difficult to shift in some instances, yet it is regarded as one of the favored states.

A number of studies have been made of relative tax costs in the Midwest states for typical manufacturing

firms, or of various branches of firms operating in several states. Virtually all of these have shown Illinois to offer the lowest state tax burden, and frequently lowest state-local tax. For example, a Pennsylvania Economy League study, *The Relative Tax Cost to Manufacturing Industry* (Pittsburgh: 1957), showed Illinois to have the lowest state tax cost of nine industrial states, with a figure for the typical firm of $12,369, compared with a high of $131,153 in Pennsylvania. A report prepared for the Federal Reserve Bank of Boston showed Illinois to be the low of seven industrial states, $4,100 versus a high of $28,468 in Massachusetts. A very detailed Michigan study showed a much lower ratio of Illinois state taxes to Michigan taxes on manufacturers than those of the other six industrial states compared in like fashion. See D. B. Yntema, *Michigan's Taxes on Business* (Holland, Mich.: Hope College, 1959). There is clearly a substantial margin in which Illinois can obtain considerable revenue from this source without getting itself in the "high business tax" category and without endangering its economic growth. Granted, there may be loss of a few marginal firms — but this is not likely to be significant and is far less hazardous to the State than the dangers of recurrent argument and financial crisis from the alternative path. A state obviously cannot build its tax structure solely on the criterion of the fear of the loss of some business activity, but must think of equity and other considerations as well. And it must be kept in mind that our neighboring states are all faced with much the same problem; all will be turning to new revenue sources and increased use of existing ones in the coming decade.

An Equitable Business Tax

The specific provisions of tax legislation may be as significant for business as the nature of the taxes and the over-all levels. It is important to use a form of business tax which is equitable among business firms; thus some form of franchise tax based on net income, with moderate and nonprogressive rates, is necessary to replace the present inequitable tax related to paid-in capital, which is grossly discriminatory among various companies according to their capital structure. In addition, the poorly administered and equally inequitable capital stock (corporate excess) tax element in the property tax should be wiped out entirely. Likewise, equitable formulas for allocation of interstate income, which include sales as a factor, with sales ascertained by place of delivery, are extremely important to avoid unjust multiple taxation.

The responsible business community of Illinois is well aware of the need for additional state revenues and of the urgency of a more balanced over-all tax structure. Their acceptance of a moderate corporate franchise tax based on profits, without an acrimonious fight, will avoid the serious dangers which confront the state if no broadening of the over-all tax system is attempted, and help protect, rather than destroy, the favorable reputation which Illinois enjoys in the business community of the United States.

Responsible business groups justifiably object to high business levies imposed in a punitive spirit, to the gouging of certain industries, such as the railroads by New Jersey, and to rules which attempt to import income for tax purposes to which the state has no legitimate claim. They do not insist on something for nothing or expect subsidies from other groups. Yet, by the accidents of history, this is the present Illinois situation.

Social Security Expansion

(Continued from page 2)

payment and insurance techniques should be applied in national programs. The use of these techniques in the private sectors of the economy have become highly fashionable. They are, in fact, commonly overworked, misused, and abused. The possibilities of future difficulties arising from such practices are generally ignored.

Widening Use of the Insurance Principle

What should be remembered in applying the "insurance principle" is that it establishes claims which have to be met regardless of conditions. People who make regular payments expect specified benefits as a matter of right, and the question of whether or not they need help becomes irrelevant. By the same token, the burden on the government becomes established and the question of whether there will be a need to conserve public resources for other purposes is left unanswered.

One question here concerns the nature of the risks. Insurance should be used only to cover risks that are insurable. To the individual, unemployment is such a risk. This is correct from a broader viewpoint as long as unemployment remains near the frictional minimum. When it rises well above that level, the hazard for the individual increases but the nature of the situation is such that it becomes a collective risk. As Galbraith points out, the economy cannot place insurance to protect itself against such a development. The federal government must act to restore full employment, and doing so may require all its tax and credit resources. In undertaking a broadened program of the kind described above, it might be better to do so as part of a program of stabilization rather than as a form of insurance.

The medical aid proposal also deals with seemingly insurable risks, but the risks are not altogether unavoidable because so much of the expense they entail is under the control of the individual, or more accurately speaking, under the joint control of the patient and his doctor. This opens the door to extensive excesses and inequities, and it may be desirable to protect against abuses by insisting upon some kind of investigatory and control procedures. Again, there is no need to approach the problem as a kind of insurance with specific financing.

Current practice calls for financing social security on an "actuarially sound" basis. A schedule of future increases in payroll tax rates has been enacted to cover estimated future costs. Rates are scheduled to rise to 4½ percent each for employer and employee by 1969, and new programs will tend to increase this still further. The future costs are of necessity estimates, but there is no doubt that benefits will be rising continuously through the rest of this century. The rate increases will offset the cost increases on the assumption that full employment will prevail throughout, except possibly for minor interruptions. This, however, can hardly be considered assured, and if tax receipts fail to expand on schedule, rising benefit costs will inexorably push the system into a deficit position.

The easy answer, consistent with current practice, is to raise the payroll tax rates further. But under conditions of economic stagnation or adversity, this would depress the economy still further. Thus, the government might face a deficit on social security account at just the time it should be taking other action to stimulate the economy. Since our fiscal thinking is still oriented toward avoiding deficits, there is some likelihood that appropriate action would then be inhibited. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Cities' Employment and Pay Rates

Employment by city governments in the United States during October, 1960, rose to 1.7 million, 3.4 percent above the previous October, according to a recent report by the Bureau of the Census. About 85 percent of these employees were full-time workers. A large percentage of the part-time workers were firemen and elected officials of small municipalities.

The larger the city, the greater is the proportion of municipal employees to total population on a full-time equivalent basis. For example, in the five cities with population over 1 million persons in October, 1960, there were about 182 employees per 10,000 inhabitants, compared with an average of 66 persons per 10,000 for cities of less than 25,000 persons.

Pay rates for city workers also differ widely among the several size groups of cities. For full-time employees of city-operated schools, the average salary ranged from $573 a month in the five largest municipalities down to $405 a month in cities with less than 25,000 inhabitants. Employees working in all other municipal functions averaged $453 a month in salaries and wages in the cities over 1 million persons, compared with $311 a month in cities of less than 25,000 people.

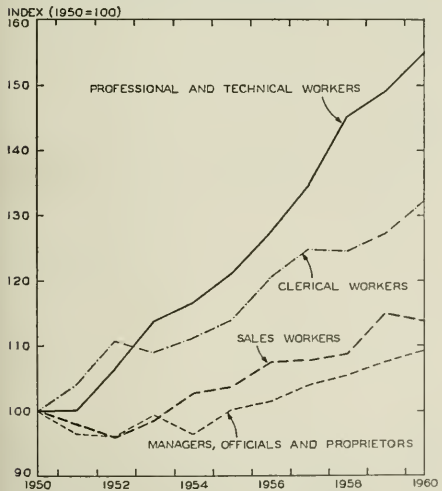
Demand for College Graduates

Dr. Frank S. Endicott of Northwestern University has released his fifteenth annual report on planned recruitment of college graduates by business firms. It indicates that openings and salaries for graduates seeking employment in 1961 will be better than in the previous year when both reached an all-time high. The Endicott survey covers 210 companies which are for the most part large manufacturing firms with special interest in outstanding graduates with technical backgrounds.

The survey reports that the 1961 quotas of these companies amount to about 18,500, up slightly from 1960. About 40 percent of the openings are for graduates trained in some phase of engineering. Recruitment of engineers is expected to be up nearly 6 percent over that of 1960, whereas openings for nonengineering graduates will be down about 3 percent.

Indications are that salaries for 1961 graduates will be 2 to 3 percent higher than for last year's graduates. Engineering graduates will receive the highest salaries, $425 to $575 a month. Their average starting salary will be about $520 a month. Salaries for accountants, sales, and general business trainees will be as high as $550 a month, with average monthly salaries at the start amounting to $458, $451, and $439 respectively.

CHANGES IN EMPLOYMENT IN WHITE-COLLAR OCCUPATIONS SINCE 1950



Source: U.S. Department of Labor, *Monthly Labor Review*, January, 1961, p. 15.

Concentration in Advertising Agencies

The *1958 Census of Business* reports that the 4,240 advertising agencies in the United States in 1958 had total receipts of $4.3 billion. Of these agencies, 3,367 which reported more detailed information had receipts totaling $4.2 billion, and they reported commissions amounting to $508 million and income of $137 million from sales of advertising materials and services. Some $3.4 billion, or 80 percent, of the $4.2 billion was the cost of advertising media, such as space in magazines, newspapers, and periodicals or time on radio and television. The billing for advertising materials and services was $725 million and service fees totaled $89 million.

As would be expected, agencies in the New York standard metropolitan area had the largest amount of the advertising business in the nation. In 1958, their total receipts amounted to $1.9 billion, or 44 percent of all receipts in the country. Agencies in Chicago's metropolitan area were second with approximately $638 million, followed by agencies in the Detroit metropolitan area with $335 million.

Upward Trend in White-Collar Employment

White-collar employment in the United States continued its long-term movement upward both in numbers and as a proportion of the total labor force during the decade of the 1950's. Between 1950 and 1960, white-collar employment rose 27 percent from 22.4 million to 28.5 million, compared with the 17 percent increase in total nonagricultural employment. White-collar workers accounted for 47 percent of total nonfarm employment in 1960, up 4 percentage points from 1950.

In contrast to previous periods when clerical workers were the fastest growing white-collar group, the 1950's were marked by the rapid increase of professional and technical workers (see chart). This group increased substantially in nearly every year, including recession periods. In 1960 there were 7.4 million persons employed in professional and technical work, up 55 percent from 1950. Clerical employment increased 32 percent to 9.7 million. Although this rate of increase was almost double that of total nonagricultural employment, it was down from the level reported in earlier decades. The number of sales workers increased 17 percent and the number of managers, officials, and proprietors rose 9 percent.

LOCAL ILLINOIS DEVELOPMENTS

Unemployment High in Illinois

According to the Illinois Department of Labor, unemployment in the State reached 315,000 in January. This was 7.3 percent of the state's work force of 4,264,000 persons. The Chicago area, which accounts for about two-thirds of the work force in the State, was reported to have 190,000 workers unemployed, or 6.8 percent of the area's total work force. A survey of the unemployed in the Chicago area revealed that about 60 percent of all insured unemployed were in the semiskilled and unskilled occupations. Negroes, who account for 12 percent of the labor force, made up about 40 percent of the total unemployed in the Chicago area. Younger workers, either because they are unskilled or semiskilled or because they lack seniority, have been seriously affected by the recession. Older workers who have skills and seniority have generally been able to ride out the downturn. On the other hand, when older workers lose their jobs they often have the greatest difficulty in obtaining employment.

In the southern part of the State, there are some counties reporting an unemployment rate of about 25 percent, of which about 5 percent is attributable to the present recession. Long-term contraction of employment in the coal industry is the basic cause of the area's depressed condition. Unemployment in the mining areas, which has not dropped below 16 percent during the last seven years, has resulted not only because mines have closed, but also because the remaining mines have become highly mechanized.

Improved Housing for Relocated Families

A report entitled *Rehousing Residents Displaced from Public Housing Clearance Sites in Chicago* was recently released by the Department of City Planning and the Chicago Housing Authority. It presents the results of a survey conducted among 197 families that moved from thirteen CHA clearance sites during 1957 and 1958. Before relocation 162 families, or 83 percent of those surveyed, were living in substandard housing. After relocation 81 families, or 42 percent, still lived in substandard units, but 114 families, or 58 percent, were living in standard housing.

The report further shows that with improved quality of housing a majority of the tenants experienced rent increases. The range of monthly rentals for most families rose from $40-$70 before relocation to $60-$100 afterwards. The report also indicates that families in all income groups shared in obtaining improved housing, but those with annual incomes of $3,000 or less experienced the least gain.

Rise in Average Weekly Earnings Slows

Average weekly earnings in manufacturing industries in Illinois amounted to $97.75 in 1960, compared with $96.66 in 1959 and $89.83 in 1958. As is shown in the accompanying chart, average weekly earnings in 1958 rose very rapidly after February's low of $86.90 to $93.97 in December. Since then they have increased much more slowly.

Over the three-year period the rise in average weekly earnings has been largely due to significant increases in hourly earnings. These advanced from $2.25 in January, 1958, to $2.49 in December, 1960. Average weekly hours worked amounted to 39.4 in 1958 and 40.6 in 1959. In 1960, they declined to 40.0. During 1959, there were no months in which the average number of hours worked fell below the 40-hour workweek. However, in 1960 nearly half of the months registered average workweeks of less than 40 hours.

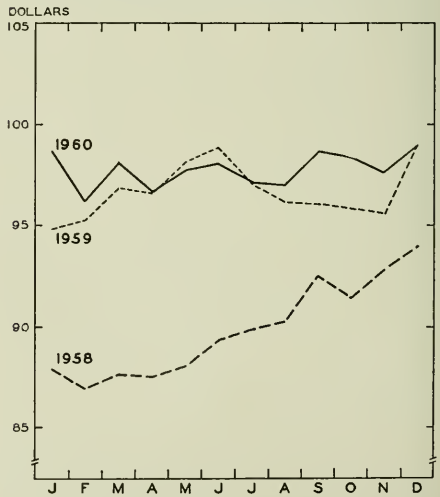
Average weekly earnings vary widely among the different manufacturing industries. In December, 1960, workers in printing, publishing, and allied industries and in petroleum refining and related industries had the highest average weekly earnings, $116.28 and $115.63 respectively. On the other hand, workers in apparel and other finished textile products industries earned an average of only $61.34 a week, and workers in the leather and leather products industries received an average of $68.71 a week.

Telephone Expansion Planned

The General Telephone Company, which serves numerous communities in central and southern Illinois, announced recently that it plans to spend an estimated $18.5 million on construction in 1961. This represents the largest sum spent on construction by the company in a single year and is 40 percent above that spent last year.

Some of the major projects scheduled for this year include the conversion of twelve exchanges to dial operation and the replacement of five dial central offices. In addition, work has started or will begin this year on building construction for major dial conversion in five other cities and will be completed in 1962. The company plans to bring direct long-distance dialing to ten communities this year. Also included in this year's budget are provisions for completing a micro-wave link between Olney, Flora, and Centralia and for beginning another micro-wave system which will connect Marion, Carbondale, DuQuoin, and Centralia. The micro-wave facilities are to implement long-distance service in this area. Other major projects will be undertaken in 84 cities; the great majority are to be completed within the year.

ESTIMATED AVERAGE WEEKLY EARNINGS IN MANUFACTURING



Source: Illinois State Employment Service and Division of Unemployment Compensation.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1961

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$25,053[a]	1,304,406[a]	$684,885[a]		$21,489[a]	$19,851[a]
Percentage change from	Dec., 1960	−61.5	+2.6	+25.2	−58	+2.1	−8.5
	Jan., 1960	+11.0	−1.2	−1.5	−3	+17.8	+9.2
NORTHERN ILLINOIS							
Chicago		$18,277	951,877	$485,161		$19,947	$16,762
Percentage change from	Dec., 1960	−69.7	+1.9	+22.3	−58	+2.3	−11.4
	Jan., 1960	+29.0	−2.3	−4.3	−3	+18.9	+9.8
Aurora		$ 276	n.a.	$11,114		$ 83	$ 192
Percentage change from	Dec., 1960	−2.5		+26.1	−61	−5.5	+9.5
	Jan., 1960	+37.3		+4.3	−4	+1.5	+9.7
Elgin		$ 233	n.a.	$ 8,175		$ 52	$ 146
Percentage change from	Dec., 1960	+59.6		+24.7	n.a.	−9.4	−25.4
	Jan., 1960	−77.6		+4.4		+4.1	−3.3
Joliet		$ 258	n.a.	$13,973		$ 93	$ 177
Percentage change from	Dec., 1960	+35.8		+28.1	−60	−1.1	+25.8
	Jan., 1960	−24.3		−2.0	−8	−1.9	+6.0
Kankakee		$ 131	n.a.	$ 6,880		n.a.	$ 96
Percentage change from	Dec., 1960	+219.5		+40.0	n.a.		+24.3
	Jan., 1960	+142.6		+8.2			+27.9
Rock Island-Moline		$ 496	24,982	$13,772		$ 115[b]	$ 199
Percentage change from	Dec., 1960	−59.4	−12.5	+27.3	n.a.	−13.7	−10.2
	Jan., 1960	−35.8	−17.5	−2.7		−4.3	−2.7
Rockford		$ 1,674	57,606[c]	$24,128		$ 202	$ 365
Percentage change from	Dec., 1960	+534.1	+7.8	+29.8	−65[c]	−8.1	+18.6
	Jan., 1960	+200.0	+0.0	+3.1	−8[c]	−2.0	+8.3
CENTRAL ILLINOIS							
Bloomington		$ 153	12,343	$ 7,463		$ 86	$ 123
Percentage change from	Dec., 1960	−21.5	+5.9	+30.9	n.a.	+12.0	−5.9
	Jan., 1960	+8.5	+9.0	+9.6		+16.6	−0.5
Champaign-Urbana		$ 115	16,764	$10,556		$ 89	$ 177
Percentage change from	Dec., 1960	−71.5	+3.7	+27.1	n.a.	+6.6	+16.2
	Jan., 1960	−20.7	+9.0	+7.5		+11.7	+9.6
Danville		$ 430	15,482	$ 8,257		$ 53	$ 79
Percentage change from	Dec., 1960	+46.8	+3.8	+24.9	−65	−0.9	−19.7
	Jan., 1960	−86.7	+9.2	+5.7	−6	−1.6	−14.2
Decatur		$ 201	37,546	$14,452		$ 125	$ 183
Percentage change from	Dec., 1960	−50.4	+2.9	+31.4	−62[c]	+1.7	+24.8
	Jan., 1960	−39.6	+4.6	+4.4	−5[c]	+6.9	+1.8
Galesburg		$ 30	10,449	$ 6,020		n.a.	$ 71
Percentage change from	Dec., 1960	−61.5	+7.0	+43.2	n.a.		+36.4
	Jan., 1960	+150.0	+2.1	+5.0			+5.6
Peoria		$ 404	62,610[c]	$29,185		$ 239	$ 396
Percentage change from	Dec., 1960	−27.5	+8.6	+70.4	−61	+1.6	−9.7
	Jan., 1960	+93.3	+0.1	+32.0	+1	+6.8	−6.3
Quincy		$ 170	13,809	$ 7,005		$ 60	$ 172
Percentage change from	Dec., 1960	+44.1	+3.6	+12.1	n.a.	+14.6	+91.9
	Jan., 1960	+78.9	+12.1	+2.4		+21.9	+43.4
Springfield		$ 461	44,552[c]	$15,860		$ 143	$ 439
Percentage change from	Dec., 1960	+72.7	+3.0	+24.0	−58[c]	+6.0	+34.6
	Jan., 1960	−53.2	+6.9	−1.1	+5[c]	+8.5	+15.7
SOUTHERN ILLINOIS							
East St. Louis		$ 12	18,936	$10,283		$ 157	$ 152
Percentage change from	Dec., 1960	−87.4	+5.2	+18.1	n.a.	−0.0	+54.1
	Jan., 1960	−92.8	+13.1	+3.7		+6.9	+10.3
Alton		$ 1,714	23,837	$ 6,259		$ 46	$ 70
Percentage change from	Dec., 1960	+2,709.8	+10.5	+24.7	n.a.	−1.6	+34.4
	Jan., 1960	+2,016.0	−4.2	+1.8		+2.9	+73.1
Belleville		$ 18	13,612	$ 6,344		n.a.	$ 51
Percentage change from	Dec., 1960	−89.4	+9.1	+33.5	n.a.		−29.8
	Jan., 1960	−43.8	+8.8	+13.7			−39.7

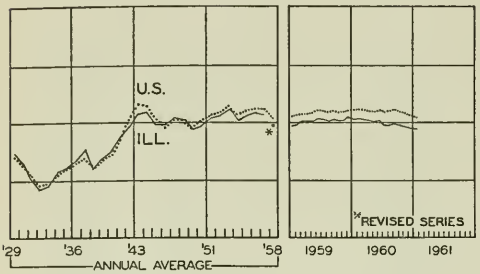
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for December, 1960. Comparisons relate to November, 1960, and December, 1959. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending January 6, 1961, and January 8, 1960.

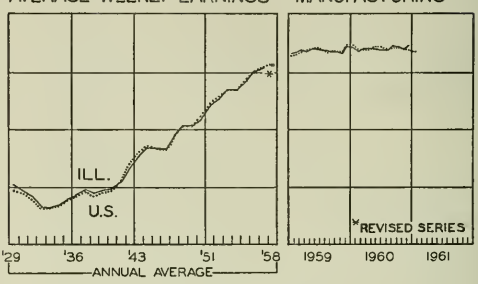
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

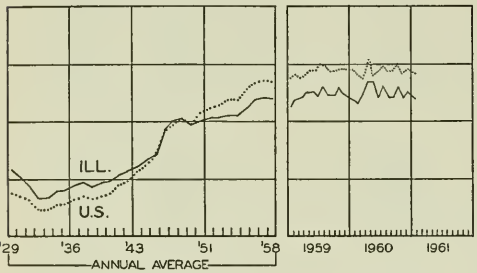
EMPLOYMENT MANUFACTURING



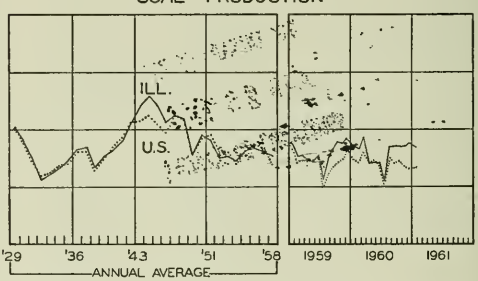
AVERAGE WEEKLY EARNINGS—MANUFACTURING



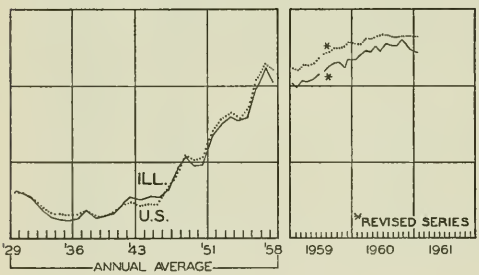
DEPARTMENT STORE SALES (ADJ.)



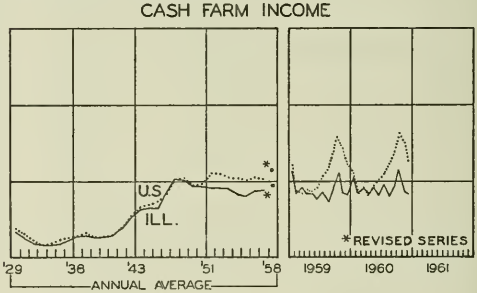
COAL PRODUCTION



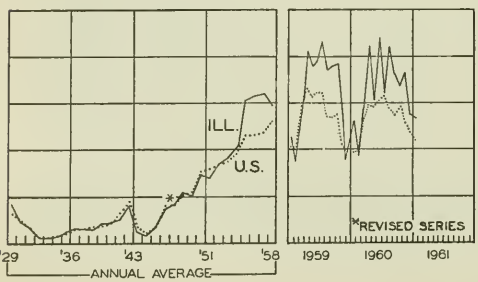
BUSINESS LOANS



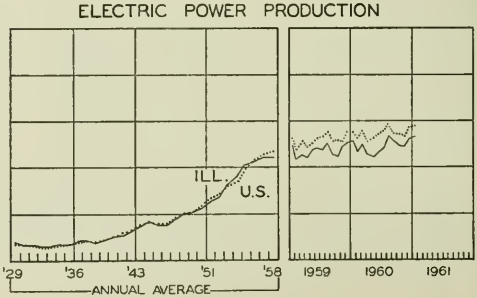
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN MARCH

Developments within the economy during March raised the questions: Has the decline come to a halt? Is an upturn beginning? Steel and automobile production increased as did some other components of industrial output. As a consequence, industrial production rose for the first time since last July, although not enough to change the seasonally adjusted index from February's 102 (1957 = 100). Preliminary estimates indicate that retail sales rose 1 percent to $18.1 billion, with a gain of close to 10 percent in new automobile deliveries.

Employment Picture Mixed

Unemployment fell from February by a less-than-seasonal 210,000 to 5.5 million in March. The effect of this was to raise the seasonally adjusted rate of unemployment from 6.8 percent to 6.9 percent despite a greater-than-seasonal increase in employment of 861,000 that carried the total to a March record of 65.5 million.

Long-term unemployment — people out of work 15 weeks or longer — rose 238,000 to 1.9 million in the month ending March 15. Nearly 800,000 of these have been out of work 27 weeks or longer. However, the number of persons on short workweeks dropped 235,000 to 1.5 million.

Construction Steady

The estimated $3.9 billion spent on new construction in March was 8 percent above February, about the normal seasonal change between the two months. The March total was approximately the same as the year-earlier month.

Total new private construction expenditures in March amounted to $2.8 billion, up 7 percent from February compared with a normal seasonal increase of 6 percent. Private nonfarm homebuilding was up slightly to $1.4 billion, but was still 11 percent below March, 1960. New public construction fell slightly to $1.1 billion, but was 13 percent above March a year ago.

In the first three months of 1961 total new construction amounted to $11.3 billion, virtually the same as was spent in the first quarter of 1960. Private construction, particularly of residential buildings, was down, but increases in public expenditures offset this.

Sales Rise, Inventories Fall

After adjustment for seasonal influences, total sales of manufacturers, wholesalers, and retailers in February increased for the first time in ten months, rising $400 million to $59.1 billion. Three-quarters of this gain was made by manufacturers and the rest by retailers, in both cases in nondurables. Manufacturers accounted for sales of $29.0 billion, wholesalers $12.2 billion, and retailers $17.9 billion. The total for the month was almost $4 billion under February a year ago.

Inventories declined $400 million from January to $91.6 billion in February. Retailers accounted for three-fourths of this change, cutting their stocks to $24.8 billion. The value of manufacturers' inventories was reduced $100 million to $53.6 billion. In both cases most of the change was in durables.

Further Cut in Instalment Debt

February was the second month in a row in which consumers reduced their instalment debt. After allowance for seasonal influences, the cut amounted to $208 million, leaving a total of $42.3 billion outstanding. Decreases in automobile paper, other consumer goods paper, and repair and modernization loans were only partly offset by an increase in personal loans.

Adjustment for seasonal influences converted a large decrease in noninstalment debt into an increase of $27 million. A reduction in charge accounts was offset by expansion in single-payment loans and service credit. The total of short- and intermediate-term debt fell $181 million to $54.1 billion.

Kennedy Budget Revisions

The Kennedy Administration expects federal expenditures to exceed revenues by $2.2 billion in the fiscal year ending this June, in contrast to the small surplus predicted by the previous administration. The shift to an anticipated deficit reflects a decrease of $500 million in expected revenues to $78.5 billion and an increase in expenditures of $1.7 billion to $80.7 billion. Increased defense outlays and extension of unemployment benefits account for the expected rise in expenditures.

For fiscal 1962, ending in June, 1962, the new Administration has raised the spending estimates by $3.3 billion to $84.2 billion. About one-fifth of the increase is attributable to planned expansion of defense expenditures and most of the rest to increased aid to agriculture, education, unemployed workers, and economically depressed areas. Estimates of receipts in fiscal 1962 have been reduced almost $1 billion to $81.4 billion. Thus a deficit of $2.8 billion is projected in place of the $1.5 billion surplus anticipated by the preceding administration.

THE PROBLEM OF CHRONIC UNEMPLOYMENT · By Jacob J. Kaufman · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

Accelerated Depreciation

The mythology of all-powerful fiscal policy holds that the government can remedy any economic difficulty by a little tinkering with tax rates or expenditures. Nowhere is this more evident than in appeals for accelerated depreciation.

Complaints about the inflexibility of depreciation policy had been voiced over a long period of years, and the Eisenhower Administration responded to these complaints with changes in the Internal Revenue Code of 1954. This code provides a choice of methods for writing off the original cost: the declining balance method, the sum of years-digits method, or any alternative that does not exceed the declining-balance allowances over the first two-thirds of the useful life of the asset.

Although the new code permits substantial flexibility, it has seemingly done little more than whet the appetites of those who want something that will have more than a "token effect." Claimants as usual direct their arguments to the point of greatest current appeal, namely, the need for stimulating growth and reversing the trend toward higher unemployment. Labor unions, finding many of their members "technologically unemployed," dispute the ability of increased investment to accomplish this. Other effects are also in dispute, but it seems clear that faster depreciation has meant a substantial loss in tax revenues to the federal government.

Ways to Lower Taxable Income

Two kinds of proposals for increasing depreciation allowances are widely advocated: still faster write-offs, and permitting depreciation on a replacement-cost basis. The first of these would extend the policy of 1954. The code now allows 40 percent the first year on a five-year asset, and it is proposed that the longer-lived assets should be put on something like the same basis. To the company with adequate operating profit, this would make for quick recovery of invested capital.

In dealing with this kind of policy, it is often naively assumed that total taxes will be the same, merely being shifted from one period to another. This ignores the fact that most businesses are going concerns which invest, not just once, but in new units year by year. For going concerns, any acceleration formula results in lower taxes and higher retentions, and if investments continue to grow over long periods, the tax reductions build up faster and stay permanently higher than under the straight-line method. (For details, see E. Cary Brown's excellent article entitled "The New Depreciation Policy Under the Income Tax: An Economic Analysis," *National Tax Journal,* March, 1955.) Estimates indicate that the new code has been a boon to business but involves an annual tax loss that may exceed the budget deficits now anticipated for this fiscal year and next.

The same kind of result would be produced by a shift to replacement cost. The object here is to protect this one portion of business income against the "erosion of inflation." It is a moot question in economic and accounting literature and cannot be considered in detail here. The proposal would in effect permit higher charges against depreciable assets by revaluing them in line with the price increases that have occurred since they were first acquired. It is never suggested, however, that the revaluation be considered income and taxed as such, which would in effect offset the depreciation allowance.

Regardless of any concession made on depreciation charges, a good case can be made for correcting the inequity that arises from taxing excess salvage value as capital gain. This has led to constant pressure on the Internal Revenue Service to permit underestimates of service life and salvage value (since salvage value for depreciation purposes is a matter of estimation at the time of acquisition). Taxing excess salvage value as ordinary income would eliminate these abuses.

Tax Concessions for Recovery

Another kind of tax reduction is proposed, not so much to meet a business need as to promote economic recovery. It calls for giving business a tax credit against new investment in excess of depreciation charges. The resulting expansion is supposed "to lift the whole economy," but this view exaggerates greatly. A moderate tax credit on a portion of an investment is no more than a minor reduction in cost, and when judged by some of the usual criteria for arriving at investment decisions — for example, a short pay-back period — it would make little difference in the result. Nevertheless, this is a way of leaving funds in the hands of business concerns with at least some incentive to invest them.

Since the justification for this is stabilization, any such incentive ought to be offered only when it is really needed. A permanent arrangement of this kind would dissipate its puny force in good times, leaving it with nothing to offer in bad. If the authorization were temporary, there would be pressure to make it permanent, and such pressure would be hard to resist in any period of semi-stagnation like the present.

In urging the adoption of such policies, it is common to cite foreign experience. The Swedish experience in the recession of 1958 seems to indicate some contribution from its "tax-free investment reserves" plan, which authorized special write-offs and tax credit on new plants from May, 1958, to September, 1959. Its success can hardly be considered an adequate test, since the mildness of the recession did not interrupt the growth of many participating companies.

Other foreign experience is less pertinent. For example, a crude correlation between high growth rates and rapid write-offs is currently being circulated to convey the implication that our inadequate growth may be blamed on this one factor. However, conditions are not similar enough here and abroad to justify such a correlation. Most important among the differences is that we already

(Continued on page 8)

STEEL: A BASIC INDUSTRY

The process of converting iron into steel has been known at least several thousand years. Despite its superior characteristics of being stronger than wrought iron and more malleable than cast iron, steel until a century ago remained a scarce commodity, limited mostly to the production of weapons and cutting tools, chiefly because of the time and experience required and the consequent expense in manufacturing it.

Iron manufacturing was not uncommon in early America, but steel production remained a small, specialized operation from 1734, when the first steelworks were established, until the mid-nineteenth century. Prior to the latter time steel was made by packing charcoal around pig iron bars and then heating the whole mass in a closed furnace for a week. Enough carbon was absorbed from the charcoal to turn the bar into steel. This method, however, was erratic and resulted in cast iron rather than steel whenever the uncontrolled carbon absorption was too great. Furthermore, the size of the piece that could be produced was necessarily very small.

It was not until the invention of the Bessemer process in the 1850's that a practical means was discovered for producing cheap steel on a large scale. Production rose quickly when this process became widespread after the Civil War. Output by the Bessemer furnace rose from 3,000 tons in 1867 to more than 13 million tons in 1906, when it was finally surpassed by the more flexible open-hearth process which had developed rapidly after 1890. Today, the open-hearth method accounts for nearly seven-eighths of the nation's total steel production.

Manufacturing Giant

Steel is perhaps the most basic of American industries. It forms the center of a galaxy of finishing and fabricating industries which furnish products for nearly every industry, office, and home in the nation. American steel output is the largest in the world, accounting for nearly 30 percent of the world total in 1959 despite the prolonged strike that cut production in the summer and fall. Nationally, the steel industry ranks behind the automotive and aircraft industries as the third largest manufacturing industry.

In the latter part of the nineteenth century and the first part of this century, the industry went through a process of consolidation. Today, it is mainly composed of giant producers who can afford the enormous capital required for the construction of mammoth furnaces and automated mills and equipment. In all, the industry is made up of only 84 companies operating some 1,240 furnaces. The eight largest of these companies produced an estimated two-thirds of the nearly 100 million tons of steel ingots turned out in 1960 and employed nearly seven-tenths of the industry's 500,000 workers.

Ingot steel is produced in 29 states, but the industry is mostly concentrated in a six-state area stretching from New York and Pennsylvania to Illinois. This area provided nearly 66 percent of national production in 1960. However, there has been a gradual shift in production and capacity from the long-dominant Pennsylvania area to states nearer some of the newer markets, especially those west of the Mississippi.

Another of the more significant trends has been the growing national demand for light steels, such as sheets, tin plate, and strips, which are turned mostly into consumer goods. These light steels increased from about 46 percent of all rolled steel products in 1946 to 55 percent by 1959.

In recent years, the industry has had difficulties. Although the nation's steel capacity has steadily edged upward to an all-time high of 150 million tons, its output has leveled off since reaching a record 117 million tons in 1955. A number of factors account for the industry's plight, the most important of which has been the general contraction of the economy. In addition, the progress made in foreign steel production has generally weakened export demand for American-made steel and has brought about an upturn in imports. The industry also has faced greater competition from substitute materials, such as prestressed concrete, aluminum, and plastics, partly as a result of rising wholesale steel prices, which have increased more than 55 percent since 1950 compared with 23 percent for all commodities other than farm products and food.

Steelmaking in Illinois

Steel was produced in southern Illinois as early as the 1840's, but the later development of the industry in this State has centered chiefly in the Chicago area. The first ingot was not poured in Chicago until 1869, after the Bessemer system had been developed, although the city had several iron foundries as early as 1839. As a producer, Chicago grew quickly because of its natural accessibility to raw materials, the availability of suitable sites for steelworks, and the presence of actual and potential markets. Today, the Chicago steel district — which includes Gary, Indiana — is the nation's second largest steel center, exceeded only by Pittsburgh. Steel is also produced in three other areas, centered at Granite City, Sterling, and Peoria.

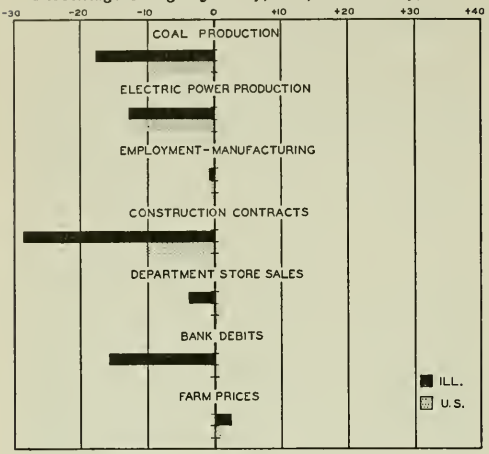
The state's steel capacity ranked fourth after Pennsylvania, Ohio, and Indiana, and its nineteen establishments employed more than 38,000 persons in 1958. Last year, the industry in Illinois produced more than 8.2 million tons of ingots in its 95 furnaces.

The United States Steel Corporation, the nation's largest steel producer, is also the leading steel manufacturer in the State. The company's Chicago plant, with an average employment of approximately 14,000 persons, has more than three times the employees of any other steel plant in the State. Among the large steel companies operating in the State, all of which employ more than 2,000 persons, are the Granite City Steel Company, Granite City; Republic Steel, Chicago; Acme Steel Corporation, Chicago; Laclede Steel, Alton; Northwestern Steel and Wire, Sterling; and Keystone Steel and Wire, Peoria.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes January, 1961, to February, 1961



ILLINOIS BUSINESS INDEXES

Item	Feb. 1961 (1947-49 =100)	Percentage change from Jan. 1961	Percentage change from Feb. 1960
Electric power[1]	231.6	−12.7	− 1.2
Coal production[2]	69.0	−17.8	−17.6
Employment—manufacturing[3]	93.7	− 0.8	− 8.7
Weekly earnings—manufacturing[3]	171.0[a]	− 1.1	− 0.8
Dept. store sales in Chicago[4]	121.0[b]	+ 1.7	+ 4.3
Consumer prices in Chicago[5]	130.5	+ 0.1	+ 1.1
Construction contracts[6]	189.2	−28.7	+ 1.1
Bank debits[7]	207.1	−15.8	+ 2.5
Farm prices[8]	85.0	+ 2.4	+ 9.0
Life insurance sales (ordinary)[9]	283.5	+12.8	+ 3.0
Petroleum production[10]	109.5	−10.3	− 3.0

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Data for January, 1961, compared with December, 1960, and January, 1960. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Feb. 1961	Percentage change from Jan. 1961	Percentage change from Feb. 1960
	Annual rate in billion $		
Personal income[1]	405.9[a]	− 0.2	+ 2.6
Manufacturing[1]			
Sales	348.0[a]	+ 1.0	− 8.2
Inventories	53.6[a, b]	− 0.2	− 0.6
New construction activity[1]			
Private residential	15.6[c]	− 8.5	−12.1
Private nonresidential	15.4[c]	− 2.1	+ 1.8
Total public	12.0[c]	− 7.1	+13.0
Foreign trade[1]			
Merchandise exports	19.8[d]	− 8.3	+ 5.5
Merchandise imports	13.5[d]	− 2.9	− 1.7
Excess of exports	6.2[d]	−18.2	+25.0
Consumer credit outstanding[2]			
Total credit	54.1[b]	− 1.7	+ 6.0
Instalment credit	42.3[b]	− 1.2	+ 7.2
Business loans[2]	35.8[b]	− 0.1	+ 2.7
Cash farm income[3]	36.8[d]	− 1.8	+13.7
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	102[a, e]	0.0	− 7.3
Durable manufactures	95[a, e]	0.0	−12.8
Nondurable manufactures	110[a, a]	0.0	− 1.8
Minerals	96[a, e]	− 2.0	0.0
Manufacturing employment[4]			
Production workers	93	− 1.3	− 8.7
Factory worker earnings[4]			
Average hours worked	97	0.0	− 2.5
Average hourly earnings	174	0.0	+ 1.3
Average weekly earnings	170	0.0	− 1.2
Construction contracts[5]	196	−10.1	− 0.2
Department store sales[2]	145[a]	0.0	+ 2.1
Consumer price index[4]	128	+ 0.1	+ 1.5
Wholesale prices[4]			
All commodities	120	+ 0.2	+ 0.6
Farm products	90	+ 0.7	+ 3.8
Foods	110	+ 0.6	+ 4.5
Other	128	0.0	− 0.5
Farm prices[3]			
Received by farmers	90	+ 1.1	+ 4.7
Paid by farmers	121	+ 0.8	+ 0.8
Parity ratio	81[f]	+ 1.2	+ 3.8

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for January, 1961, compared with December, 1960, and January, 1960. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961					1960
	Mar. 25	Mar. 18	Mar. 11	Mar. 4	Feb. 25	Mar. 26
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,104	1,083	1,022	1,048	1,103	1,485
Electric power by utilities...mil. of kw-hr.	14,291	14,295	14,353	14,226	14,239	13,951
Motor vehicles (Wards)...number in thous.	109	93	114	112	122	166
Petroleum (daily avg.)...thous. bbl.	7,366	7,353	7,353	7,241	7,207	7,078
Steel...1947-49=100	93	91	91	92	92	151
Freight carloadings...thous. of cars	500	507	493	501	468	601
Department store sales...1947-49=100	139	140	128	122	122	131
Commodity prices, wholesale:						
All commodities...1947-49=100	119.8	119.8	119.7	119.8	119.8	120.0[a]
Other than farm products and foods...1947-49=100	128.0	128.1	128.1	128.2	128.1	128.6[a]
22 commodities...1947-49=100	86.4	86.4	86.1	86.0	84.4	84.3
Finance:						
Business loans...mil. of dol.	32,027	32,008	31,273	31,303	31,248	31,037
Failures, industrial and commercial...number	359	363	318	408	348	286

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for March, 1960.

RECENT ECONOMIC CHANGES

Consumer Attitudes

Preliminary findings of the latest Federal Reserve Board Survey of Consumer Finances indicate that consumers are showing a mixture of caution and confidence about economic conditions. Confidence in the long-range outlook was stronger than at any time in the past seven years. This was balanced, however, by an uneasiness brought on by the current recession.

In reporting their views about the current economic picture, 56 percent of those interviewed thought business conditions were worse than a year ago, and 25 percent indicated concern about job security and employment. On the other hand, the proportion of people who expect improvement in the near future was the highest at any time since June, 1954.

With respect to purchase plans, the report showed that the percentage of consumers planning to buy new or used automobiles in the next twelve months was substantially reduced from a year earlier. Plans for furniture and appliance purchases and home improvements were also lower. Planned purchases of new and existing homes were about the same as last year but below 1959.

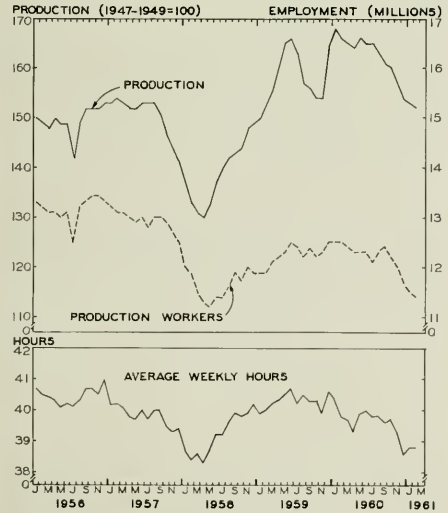
Manufacturers' Sales and Profits

Sales of United States manufacturing corporations rose in 1960 to a record $346 billion, 2.3 percent above the $338 billion of 1959. Almost all industry groups registered small gains during the year. The over-all increases for durable goods and nondurable goods industries were 3 percent and 2 percent respectively.

After-tax earnings in 1960 fell to $15.2 billion, about 7 percent below the $16.3 billion of the previous year. Most of the decline centered in durable goods industries, where profits dropped 13 percent from 1959, compared with 1 percent in the nondurable group. On a quarterly basis, after-tax earnings rose to a peak of $4.1 billion in the second period, fell off to $3.6 billion in the third quarter, and continued downward to $3.5 billion in the final three months of the year.

The annual rate of profits after taxes per dollar of sales declined to 4.4 cents in 1960, compared with 4.8 cents in 1959. As a percentage of stockholders' equity the after-tax profit rate decreased from 10.2 percent in 1959 to 9.1 percent last year.

MANUFACTURING PRODUCTION, EMPLOYMENT, AND HOURS



Sources: Federal Reserve Board and U.S. Department of Labor.

Manufacturing Output and Productivity

Manufacturing production continued to decline in February, falling to a two-year low of 152 percent (seasonally adjusted) of the 1947-49 average. The seven-month decline which began last August has resulted in a 13 point, or 7.9 percent, drop in the Federal Reserve Board's index of manufacturing production.

As a result of the cutbacks in manufacturing activity, average hours worked per week and employment have also been substantially reduced in recent weeks. In February the average workweek for production workers was 38.8 hours, down from 40 hours in June, 1960. The number of production workers engaged in manufacturing has declined by about a million workers, or 8 percent, since September and stood at 11.4 million in February.

The accompanying chart shows how the postwar upward movement in output has been accompanied by a steady decrease in man-hours. The divergence in these trends reflects gains in manufacturing productivity.

Housing Starts

Housing starts rose for the second consecutive month in February as work was begun on privately owned new homes at a seasonally adjusted annual rate of 1,154,000 units, an advance of 7 percent over the January rate of 1,076,000. The February rate, however, was still 16 percent below a year ago and does not represent a definite reversal of the downtrend from early 1959.

Actual starts of privately owned dwelling units in February were 5,900 units above the previous month's level of 68,000, but well below the 87,900 units started in February, 1960. For the first two months of 1961 the number of private dwelling units started totaled 141,900, compared with 175,000 in the same period last year.

Employment

The total number of job holders rose in March to a record high for the month of 65.5 million. The increase of 861,000 over February raised total employment more than 1.2 million above the old March record set in 1960. This year-to-year change was slightly exceeded by the corresponding rise in unemployment. During the month of March, the number of jobless fell 210,000 to 5.5 million. The decline was less than seasonal, however, and as a result the seasonally adjusted rate of unemployment rose to 6.9 percent of the civilian labor force.

Labor Department data, in thousands of workers, are as follows:

	Mar. 1961	*Feb. 1961*	*Mar. 1960*
Civilian labor force	71,011	70,360	68,473
Employment	65,516	64,655	64,267
Agricultural	4,977	4,708	4,565
Nonagricultural	60,539	59,947	59,702
Unemployment	5,495	5,705	4,206
Seasonally adjusted rate	6.9	6.8	5.5

THE PROBLEM OF CHRONIC UNEMPLOYMENT

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It has been said that "mass unemployment of the thirties largely gave way to class unemployment of the fifties." In other words this country has many pockets of unemployment concentrated in hundreds of areas in the country and among the aged, the youth, the unskilled, and the non-whites.

It is the purpose of this article to describe these pockets of unemployment; to discuss what is being done about chronic unemployment by federal, state, and local agencies; to summarize the current legislative effort; and to evaluate this effort in terms of its sufficiency to meet the problem.

The Incidence of Chronic Unemployment

Where are the chronically unemployed? In January, 1961, the United States Department of Labor reported that there were 76 major and 152 smaller labor market areas with substantial labor surpluses. These 228 areas were located in 35 states and Puerto Rico, with 8 states — Connecticut, Kentucky, Massachusetts, Michigan, New York, Ohio, Pennsylvania, and West Virginia — accounting for 123, or more than half, of such areas.

Areas are classified as having *substantial* labor surpluses if (1) job seekers are in excess of job openings, with the situation expected to continue over the next four months; (2) the ratio of unemployment to the total labor force is 6 percent or more; (3) the net nonagricultural labor requirements anticipated for the succeeding two and four months indicate declining employment levels or no significant increase; and (4) the current or anticipated labor surplus is not due primarily to seasonal or temporary factors.

Areas are classified as having both *substantial* and *persistent* labor surpluses if they have had not only the foregoing characteristics but also an annual average unemployment rate of (1) at least 50 percent above the national average for three of the preceding four calendar years; or (2) at least 75 percent above the national average for two of the preceding three calendar years; or (3) at least 100 percent above the national average for one of the preceding two calendar years. The national average unemployment rates for the preceding four calendar years of 1957, 1958, 1959, and 1960 were 4.3, 6.8, 5.5, and 5.6 percent respectively.

In January, 1961, a total of 20 major areas and 83 smaller areas qualified under the substantial and persistent criteria. These areas were located in 26 states and Puerto Rico. Fifty-eight such areas, or more than half, were concentrated in five states — Kentucky, Michigan, New York, Pennsylvania, and West Virginia.

Who are the chronically unemployed? The heaviest relative incidence of unemployment falls on the younger persons in the labor force, particularly in the 16-to-18 age group. From 1955 to 1959 male workers under 24 years of age comprised 18 percent of all unemployment, although they represented only slightly more than 9 percent of the labor force. Comparable figures for female workers were 10 percent and 6 percent, respectively.

With respect to the workers in the upper age brackets, national averages might be somewhat misleading. Although these figures reveal that the relative incidence of unemployment is lower than that for other age groups, it is known that the older groups tend to have a longer duration of unemployment. It is reasonable to infer that in areas which have had persistent unemployment the relative incidence of unemployment in this older age group has been higher than the average.

Non-whites also bear a heavier incidence of unemployment than whites. This reflects discriminatory practices as well as such handicaps as lack of skill, lack of education, and lower income, which in turn reflect discriminatory practices in another form.

It is important to note that chronically unemployed workers are persons who have limited skills and lack material resources. These facts are significant when one turns to the question of how the problem of chronic unemployment might be approached.

What causes chronic unemployment? Any analysis of the question of what causes chronic unemployment would be extremely detailed and complex and is beyond the scope of this article. As a brief summary, however, it can be said that the areas which have had chronic unemployment have been affected by one or a combination of several factors: migration of industry, shifts in demand, technological changes, depletion of resources, and changes in foreign trade.

In the New England and Middle Atlantic states we have seen, for example, a movement of plants to other sections of the country, attracted apparently by prospects of lower wage rates and lower standards of social legislation. Pennsylvania, Kentucky, and West Virginia have been seriously affected by a combination of the reduced demand for coal as fuel and major technological changes. Cities such as Gloversville and Johnstown in New York and Danbury and Norwalk in Connecticut are classic illustrations of communities that have been unable to cope with foreign competition. Many important railroad centers have been seriously affected by the dieselization of the railroads.

What Has Been Done?

Localized, as distinguished from national, unemployment was recognized as a problem just after the end of World War II. Its impact was more clearly indicated during the 1948-49 recession, as the Department of Labor resumed its program of classifying the labor supply situation in various local areas of the country. Since then many programs have developed at federal, state, and local levels.

On the federal level, in mid-1949, a program was instituted to direct government loans and contracts into areas of substantial labor surplus. Subsequently in 1952, as an outgrowth of the Korean War, efforts were made to direct additional government contracts into such areas. Special rapid tax write-off allowances were approved for firms which established or expanded certain types of defense facilities in such areas. Since December, 1954, areas of labor surplus have also been given preferential treatment under the Buy American Act when firms in these areas were bidding against foreign firms for government procurement contracts.

Other programs have indirectly been of assistance to labor surplus areas, including the urban redevelopment programs under the Housing and Home Finance Agency, the technical assistance program of the Department of Commerce, the community employment program of the Department of Labor, and the Small Business Investment Act of 1958. The present administration is considering

an expansion of SBA loans to industrial development corporations at relatively low interest rates.

A severe limitation of these programs is that, with few exceptions, they have been directed to all areas of labor surplus, regardless of whether these areas suffered from persistent or chronic unemployment or from unemployment of a recessionary or short-term nature. For this reason federal legislation designed specifically to meet the problems of areas of chronic unemployment was developed.

On the state level there have grown up in recent years state development authorities or corporations. Although most states carry on economic development and planning activities, many limit these to programs of a broad promotional nature designed to induce firms to locate in their states. Only five — New Hampshire, Pennsylvania, Maine, Rhode Island, and Kentucky — had established by 1958 special agencies which have been involved in the financing of new plants. New York State is currently considering a proposal to establish a state agency for industrial development purposes. One of the most successful has been the Pennsylvania Industrial Development Authority (known as PIDA), which has been assisting in the financing of firms that locate in chronically depressed areas of the state. Typically, PIDA lends 30 percent of the funds necessary for land and buildings, 20 percent is provided by a local development corporation, and 50 percent is obtained from private institutions. Currently, attempts are being made to amend the law to provide that the state contribution be increased and the local contribution be decreased in areas where the rate of unemployment is substantial.

Although these programs have been successful in the sense of being fully utilized, the amount of state funds available for such purposes is limited. Many states (particularly those with substantial unemployment) are unable to increase tax rates, often fearing that higher taxes may make the state unattractive to industry.

On the local level, many varieties of local industrial and community development corporations have been developed over the years. Some are offshoots of chambers of commerce; others are specifically organized to raise funds to induce firms to locate in their areas. These organizations — whose numbers run into thousands — vary considerably in terms of their origin, structure, operations, and objectives. Their success is difficult to measure. A basic limitation is their inadequate resources, either from the point of view of developing intelligent plans or of obtaining financial support. A second difficulty has been a shortage of adequate leadership in the organizations.

Despite these federal, state, and local activities, the problem of chronic unemployment persists and grows worse. Each recession tends to leave behind an increasing number of communities with more serious unemployment problems. At best the net effect of all industrial development activities — private as well as public — has been the prevention of a worse chronic unemployment problem. It is for this reason that attention has been directed toward federal legislation developed specifically for assistance to areas of chronic unemployment.

Federal Legislation

Federal aid to areas of chronic unemployment is embodied in S.1 of the current Congress, introduced by Senator Paul Douglas. As of the end of March the bill had been passed by both houses of Congress. It provides that:

(1) The administration of the law will be in the hands of an area development administrator in the Department of Commerce.

(2) The criteria for determining the eligibility of an area for assistance are essentially the same as those set forth earlier for determining whether an area has been one of substantial and persistent labor surplus. As of January, 1961, a total of 20 major areas and 83 smaller areas would automatically be eligible. The administrator is given certain discretionary authority to designate areas for eligibility on generally similar criteria. Finally, certain rural areas will be eligible if they are among the highest in numbers and percentages of low-income families and if there exist conditions of substantial and persistent unemployment or underemployment.

(3) Financial assistance will be in the form of loans for the purchase or development of land and facilities (including, in exceptional cases, machinery and equipment) to be leased to industrial enterprises. Financial assistance cannot be extended for working capital or for the purpose of relocating a firm at the expense of another area.

(4) If state or local agencies exist which are directly concerned with problems of economic development, approval of such agencies is required. Where such agencies do not exist the administrator will establish local redevelopment committees for handling the financial assistance.

(5) Financial assistance wil be subject to the following limitations: (a) the absence of alternative assistance must be established; (b) the loan is not to be for a period longer than 25 years; (c) the interest rate is to be equal to the average current yield of outstanding Treasury bonds of comparable maturity, plus one-half of 1 percent per annum (currently resulting in 4⅜ percent for a 20-year loan); (d) the assistance is not to exceed 65 percent of the total cost of land and buildings; (e) not less than 10 percent of the loan must be supplied by the state or local agencies; (f) not less than 5 percent must be supplied by nongovernmental sources.

(6) Loans for public facilities are to be made for periods not to exceed 40 years. The federal agency may provide 65 percent and the state not less than 10 percent. The interest on these loans is to be based on the average rate paid on the outstanding Treasury debt, plus one-fourth of 1 percent. Currently this would mean about 3½ percent.

(7) Grants can be made for certain public facilities subject to certain limitations.

(8) Funds are made available for technical assistance to the labor surplus areas for the purpose of conducting economic studies of these areas.

(9) The urban renewal program is authorized to operate in these labor surplus areas and urban planning grants can also be made to these communities.

(10) Provision is made for a vocational training program under the general direction of the Department of Health, Education, and Welfare, assisted by the Department of Labor and the appropriate state agencies. Such training is limited to persons in labor surplus areas who may be employed by newly located firms. Provision is also made for subsistence payments to such persons during the retraining period.

The bill provides funds of $100 million each for industrial areas and rural low-income areas for loans for construction of new plants. Another $100 million is made available for loans for public facilities to service these

new industries. Grant funds of $75 million are made available for public facilities in communities which are financially unable to handle loans. The technical assistance program and the program for retraining workers will each have $4.5 million annually. Finally, $10 million is to be appropriated annually for subsistence payments to workers during their periods of retraining. The total package amounts to $394 million.

Will Federal Legislation Do the Job?

A necessary, but not sufficient, condition for successful area redevelopment legislation is that the economy operate at full capacity and that it grow at an adequate rate. Without this condition it becomes difficult to persuade new firms (or branches) to locate in the appropriate areas. Area industrial development must be part of a growing economy. In addition, any relocation of the working force requires that there be sufficient demand for these workers in other areas of the country.

The present administration in Washington seeks, as a first objective, to reach a level of national output at which unemployment will be reduced to about 4 percent. There is also some evidence that the Administration is seeking a 5 percent annual rate of growth. Will this level of unemployment and this rate of growth be sufficient to sop up the pockets of chronic unemployment? The answer appears to be in the negative, unless we have an amount of government expenditures which will create severe inflationary pressures. A 4 percent level of unemployment will hide many communities which have much higher rates of unemployment, and a 5 percent rate of growth may be inadequate to take care of both the increasing number of persons entering the labor force and the unemployment in distressed areas.

Will the area redevelopment legislation be adequate to reduce chronic unemployment and induce the relocation of workers under these conditions? Although the contribution of this legislation toward the alleviation of the problem is not to be denied, it should be recognized that it is only a single step toward its solution. (1) The amount of financial assistance should be increased commensurate with the size of the problem. (2) Specific programs directed toward the groups most seriously affected should be developed, along with industrial development. (3) More adequate provision should be made for retraining workers so that their potential for work is improved, regardless of whether such retraining is directly related to industrial development. (4) More attention should be given to broad regional planning so that industrial development can fit into broad economic and social goals. (5) The role of the federal employment service should be increased so that more serious efforts are made to move workers to areas where the demand for labor is high. This program should be closely allied to the vocational retraining program. (6) As a preventive action, assistance should be provided for communities which at present may not be eligible for financial assistance but which threaten to become economically depressed.

Above all, it is essential that we take those steps necessary to develop an economy of full employment and adequate growth, a necessary condition for effective assistance to areas suffering from persistent high levels of unemployment. Failure to understand this, as well as the limitations of the proposed legislation, might well lead to failure of the attempts to remove this economic blight from our country.

Accelerated Depreciation

(Continued from page 2)

have the capacity and they do not; the excess puts a brake on new investment. They are gaining their growth from lower levels, which facilitates high relative rates, and are doing so partly by importing our technology. Low wages and favorable exchange rates have given them a competitive advantage in world markets, relieving them of balance-of-payments restrictions. For these and other reasons, any superficial correlation is bound to be spurious.

All of these devices to stimulate investment have the common property of costing the government substantial tax revenues. If they could buy recovery, the price would not necessarily be too high. The Kennedy Administration has apparently decided not to ask Congress for a regular tax cut to deal with the current recession. This may be mistaken, since many economists feel that taxes are too high, that the federal budget is balanced at too high a level of unemployment. But if some kind of accelerated depreciation is employed, it is nonetheless a tax cut, and it should be judged as such.

For Growth or Instability

The trouble with using such tax incentives on a year-in, year-out basis is that nobody knows whether they contribute more to instability than to growth. The evidence points to definite changes in investment timing, especially if on-and-off switches occur with changes in conditions, but as to the aggregate over a long period, it is still inconclusive. Some firms that would otherwise be pinched for funds are enabled to grow faster. But if growth should be concentrated in periods of high general demand, the effect would be to accentuate the swings.

The tendency to aggravate boom conditions was experienced in Sweden when unrestricted depreciation was permitted in the period from 1938 to 1951. The combination of high taxes and high profits contributed to high spending and inflation. Many concerns began to acquire "depreciation objects" not really needed in the business. Restrictions therefore had to be instituted, though on a relatively modest scale.

When business faces conditions that call for expansion, it needs neither special financing nor artificial stimulus. There has hardly ever been a shortage of funds for business expansion. Even deliberate efforts to restrict have only limited effects. The banking system could be restricted, but business could generally be done without benefit of loans. The pricing system has its own way of creating finances for any product in strong demand.

On the other hand, when conditions do not warrant expansion, business investment is impervious to minor inducements. In depression, when capacity is generally excessive, the incentive to expand cannot be re-created by any reasonable write-off concessions for tax purposes. Generally speaking, the income is not there to seek for a tax haven. But to the extent that it is, and its retention is permitted, it is likely to be used for improving the debt structure. Cash flowing from depreciation is especially attractive for this purpose, since it is free from the claims of both the tax collector and the stockholder seeking dividends.

It appears from this that accelerated depreciation does more to aggravate the cycle than to guarantee stable prosperity. It would not do, however, to overemphasize the point. The economic changes wrought by such devices are marginal. The basic forces of growth and of cyclical decline still predominate. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Rise in the Non-White Population

The Negro population in the United States totaled 18.9 million in April, 1960, according to the 1960 Census of Population. This represents 10.5 percent of the total population enumerated in the 50 states. In 1950 Negro population amounted to 15.0 million, or 10 percent of the total population of the 48 states. Data for Negroes in Alaska and Hawaii were not compiled in 1950; however, the number must have been very small, inasmuch as the Negro count was only 7,000 in Alaska and 5,000 in Hawaii in 1960.

As would be expected, the majority of the Negroes in the country are still located in the South. However, the proportion in that part of the country is diminishing. In 1950, 68 percent of the Negro population lived in the South and in 1960, 60 percent. In 1960 the North Central region accounted for 18 percent of the total Negro population, the Northeast 16 percent, and the West 6 percent.

Some other segments of the non-white population have also experienced substantial increases between 1950 and 1960. The number of American Indians rose 47 percent from 1950 to 524,000 in 1960. Persons of Japanese origin totaled 464,000 in 1960, an increase of 42 percent, and those of Chinese origin rose to 237,000 in 1960, nearly 60 percent higher than in 1950.

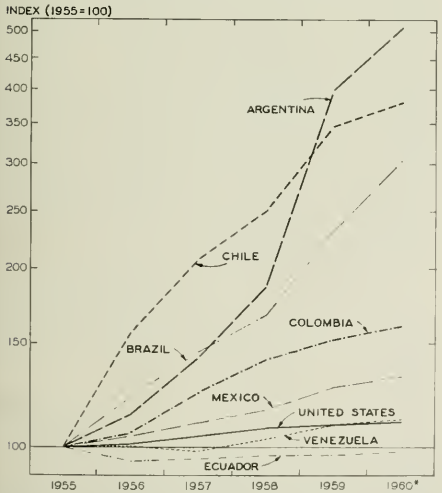
Public Employment Up

Public employment in the United States totaled 8.8 million during October, 1960, up about 300,000 from October, 1959. This figure, just reported by the Bureau of the Census, includes civilian workers employed by federal, state, and local governments. Of the total, 2.4 million were employees of the federal government; this number has remained practically unchanged since 1953. State and local governments, however, increased their working force 5 percent from October, 1959, to 6.4 million.

Five major divisions of governmental activity account for about two-thirds of public employment. Education alone accounted for 33 percent of all public employment; national defense was next with 12 percent. Health and hospitals, postal service, and highways together engage 22 percent. The remaining 33 percent is distributed among some fifteen other functions, of which only one, general control, accounts for as much as 6 percent.

Of the five leading functions of government, only health and hospitals involve a significant proportion of employees on all three levels of government. National defense and postal service are basically federal, and education and highways are predominantly state and local functions.

CONSUMER PRICES OF SELECTED AMERICAN COUNTRIES



*June, 1960, data.
Source: Pan American Union, *Indices de Precios al Consumidor de las Naciónes Americanas,* Bulletin No. 4 (1961).

New Transmission System

Business Week reports that the New York Air Brake Company has begun producing a new transmission for use in materials handling, construction, and agricultural motor vehicles. The new system is called a hydrostatic transmission. It uses hydraulic pumps and motors connected by high-pressure hoses which transfer power from the vehicle's engine to the wheels.

Some of the advantages of the hydrostatic transmission system are that it furnishes an almost unlimited range of "gear ratios" between idling and full speed in both forward and reverse and the vehicle's speed can be slowed to a crawl while the engine still continues to run at efficient working speed. The need for maintenance is slight since there are few parts that tend to wear and the system is self-lubricating.

Consumer Price Comparisons

The Organization of American States has recently released a bulletin which shows consumer price movements in 22 nations in the Western Hemisphere. In order to obtain a uniform presentation, all indexes were converted to a base year, 1955. Whenever possible, five indexes are presented for each nation — total, food, housing, clothing, and other expenses — and a uniform description is given of the five indexes.

As is shown in the accompanying chart, the consumer price indexes of the selected countries have varied widely. Argentina experienced the highest rate of increase, the total consumer price index having risen 407 percent from 1955 to June, 1960. During the same period the index advanced 277 percent in Chile and 204 percent in Brazil. The United States and Venezuela had the smallest increases during the period; however, much greater price advances occurred in these countries shortly after World War II. Ecuador was the only country where consumer prices have remained under the 1955 price level.

The five indexes reported show important differences in the way prices have varied among countries. In Argentina and Colombia the food price index advanced more than the other indexes. Increases in the cost of housing have led in Brazil and Chile, whereas the cost of clothing has had the highest rate of increase in Venezuela. In the United States the prices of "other expenses" have had the greatest upward movement since 1955.

LOCAL ILLINOIS DEVELOPMENTS

Illinois Public Aid Up

The Illinois Public Aid Commission reports that in January, 1961, the number of persons receiving public aid in the State reached the highest figure since November, 1942. There were about 416,000 persons receiving public aid in January, 1961, compared with 398,000 in December, 1960, and 376,000 in January, 1960. The rise from December is attributed to seasonal factors and the effects of the present recession.

The number of persons receiving general assistance rose 18 percent in the downstate area and 6 percent in Cook County, bringing the total January load to about 165,000 persons, or about 17,000 more than in the previous month. This increase was due mainly to layoffs, discharges, and exhaustion of unemployment compensation benefits.

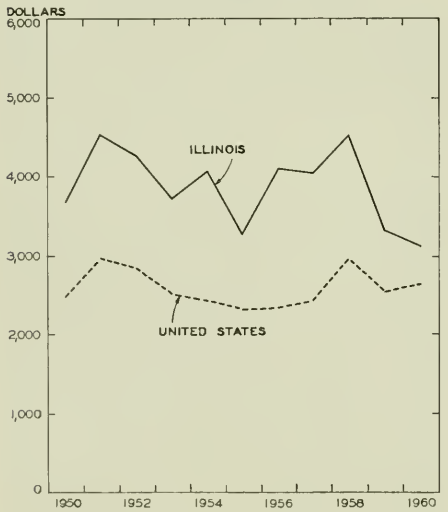
The total cost of the public aid program in the State in January, 1961, amounted to $20.4 million, of which the state's share was $11.2 million. Compared with January a year ago, public aid costs have increased 11 percent. The cost of general assistance accounted for about 33 percent of the total cost of public aid, assistance to dependent children made up 31 percent, and old age assistance accounted for 27 percent. The remaining 9 percent went to assist the blind and other disabled persons.

Increase in Electric Power Use Slows

The slowdown in business activity in 1960 resulted in a smaller increase in electric power consumption in 1960 than in other recent years. Approximately 43.1 billion kilowatt-hours were consumed in Illinois in 1960, a rise of 3 percent from 1959 compared with the 7 percent increase experienced in 1959 over 1958. The sixteen selected cities shown on page 11 consumed 14.9 billion kilowatt-hours or 35 percent of the electric power consumed in the entire State. In 1960 total electric power consumption in these cities was up only 1 percent from the 1959 level, whereas it was 10 percent higher in 1959 than in the previous year.

Gains in power use in 1960 were made by twelve of these cities. However, power consumption in both Alton and Peoria decreased 2 percent and in Galesburg and Decatur 1 percent, reflecting the impact of the recession on their manufacturing industries. The largest gains were experienced in Bloomington, East St. Louis, and Belleville, which were up 17 percent, 12 percent, and 10 percent respectively.

TOTAL NET INCOME PER FARM



Source: U.S. Department of Agriculture, *Farm Income Situation*, August, 1960, supplement, and February, 1961.

Chicago's Location of Industry

The Department of City Planning in Chicago recently released a report entitled *Locational Patterns of Major Manufacturing Industries in the City of Chicago.* It presents a description of the type, number, and employment of major industrial plants located in the city, and makes proposals for improving land use for further industrial development. The report suggests that the large tracts of vacant land zoned for industry around Lake Calumet and in other areas should be made more attractive for industrial development. By consolidating the clusters of small vacant properties, larger lots which are more suitable to modern industrial buildings could be formed. It is concluded that the land now zoned for manufacturing, of which about one-fourth is vacant property, comprises about 20 percent of all land in Chicago and should be sufficient to take care of future industrial expansion.

The report reveals that as of March, 1958, there were over 10,000 manufacturing establishments located in Chicago, employing 584,000 workers. About 17 percent of these firms employed 50 or more persons and accounted for 75 percent of the total manufacturing employment. In addition, it was found that plant location follows something of a pattern, the primary industries being concentrated on the south side of the city and the processing and finishing plants being located chiefly on the north side.

Illinois Net Income per Farm Falls

Net farm income per farm in Illinois, including government payments and the net change in farm inventories, declined for the second consecutive year in 1960, according to data released by the Department of Agriculture. In 1960 farmers' net income per farm in the State totaled $3,136, 6 percent below 1959 and 31 percent below 1958. The national net income per farm, which dropped 14 percent from 1958 to $2,548 in 1959, partially recovered in 1960, rising 4 percent to $2,646.

As is shown in the accompanying chart, net income per farm in Illinois remained at least $1,000 above that for the nation as a whole from 1950 through 1958. However, in 1959 this margin was reduced to about $800, and in 1960 it fell to $500. The state's ranking in net farm income per farm in the nation dropped from eleventh place in 1958 to eighteenth place in 1960.

Two of the main causes for the large decline in Illinois net farm income per farm within the last two years are the sharp drop in hog prices and the net change in inventories. Receipts from hogs dropped about 10 percent from 1958 to 1959 and accounted for about 50 percent of the decline in the state's total cash farm receipts in 1959. Although total cash receipts in Illinois recovered somewhat in 1960, net farm income per farm still declined because of the decline in inventories.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

February, 1961

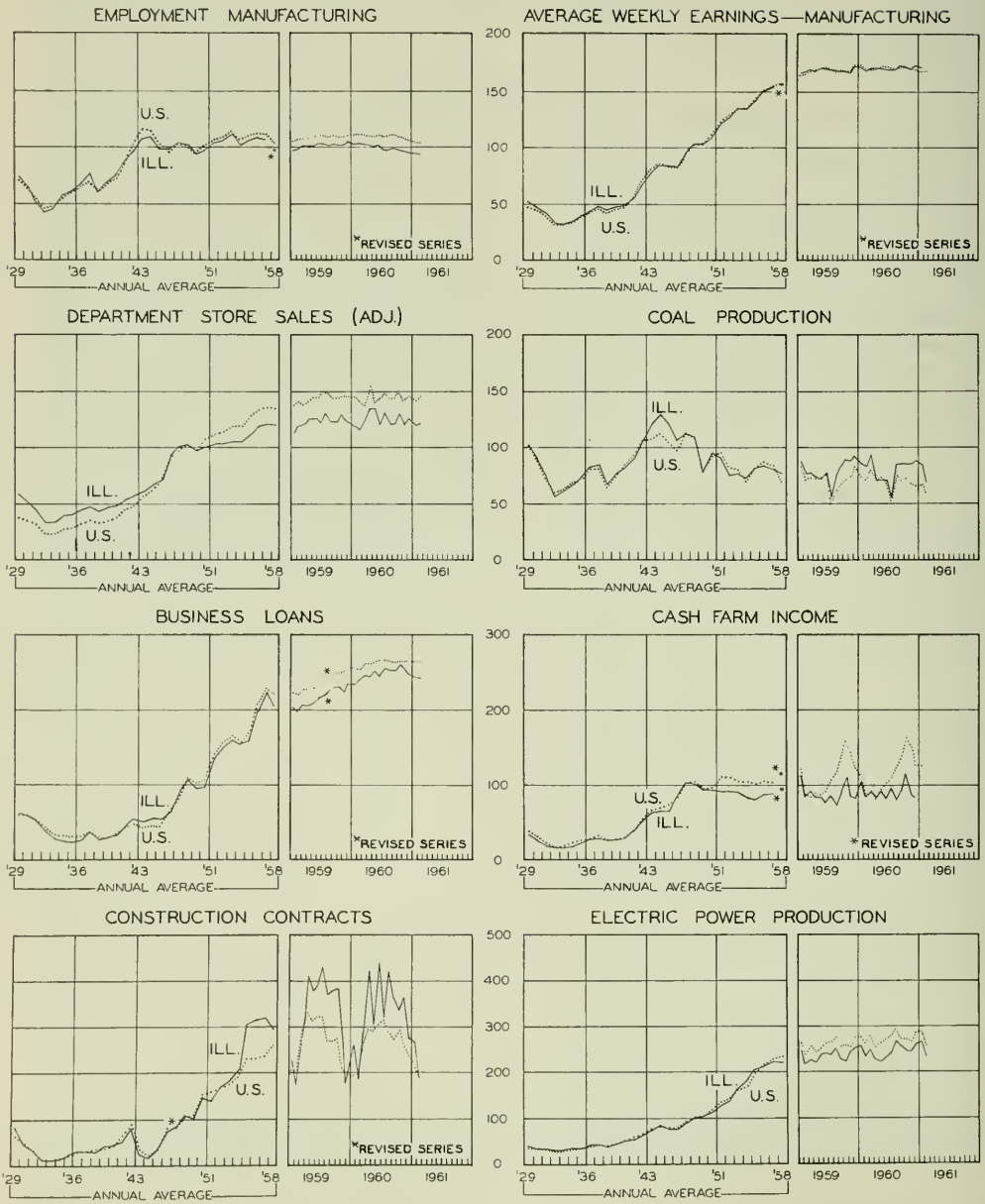
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$40,120[a]	1,287,214[a]	$499,637[a]		$18,102[a]	$16,884[a]
Percentage change from Jan., 1961	+60.1	−1.3	−27.0	−4	−15.8	−15.2
Percentage change from Feb., 1960	+7.5	−0.6	−7.6	+1	+2.5	+2.0
NORTHERN ILLINOIS						
Chicago	$33,729	943,986	$370,565		$16,764	$14,414
Percentage change from Jan., 1961	+84.5	−0.8	−23.7	−4	−16.0	−14.0
Percentage change from Feb., 1960	+52.0	−1.0	−8.2	0	+3.0	+0.9
Aurora	$ 403	n.a.	$ 7,682		$ 74	$ 174
Percentage change from Jan., 1961	+46.0		−30.9	−5	−11.0	−9.6
Percentage change from Feb., 1960	+43.4		−6.3	−3	+1.2	+6.9
Elgin	$ 141	n.a.	$ 4,790		$ 45	$ 153
Percentage change from Jan., 1961	−39.5		−41.4	n.a.	−14.0	+5.2
Percentage change from Feb., 1960	+6.8		−11.9		−0.7	+30.3
Joliet	$ 701	n.a.	$ 9,552		$ 80	$ 122
Percentage change from Jan., 1961	+171.7		−31.6	−11	−14.5	−31.2
Percentage change from Feb., 1960	+84.0		−6.3	−11	−8.4	+5.3
Kankakee	$ 27	n.a.	$ 4,164		n.a.	$ 69
Percentage change from Jan., 1961	−79.4		−39.5	n.a.		−28.4
Percentage change from Feb., 1960	−95.1		−4.9			+4.6
Rock Island-Moline	$ 450	29,684	$ 9,652		$ 107[b]	$ 205
Percentage change from Jan., 1961	−9.3	+18.8	−29.9	n.a.	−7.0	+2.9
Percentage change from Feb., 1960	+10.8	+2.5	−4.4		+0.6	+6.2
Rockford	$ 760	52,869[c]	$16,548		$ 189	$ 254
Percentage change from Jan., 1961	−54.6	−8.2	−31.4	+3[c]	−6.1	−30.1
Percentage change from Feb., 1960	−67.4	−4.0	−9.0	−1[c]	−3.7	+0.8
CENTRAL ILLINOIS						
Bloomington	$ 206	11,434	$ 5,101		$ 75	$ 124
Percentage change from Jan., 1961	+34.6	−7.4	−31.7	n.a.	−12.8	+0.5
Percentage change from Feb., 1960	−97.1	+1.2	+2.2		+10.9	+25.6
Champaign-Urbana	$ 86	15,916	$ 7,118		$ 77	$ 124
Percentage change from Jan., 1961	−25.2	−5.1	−32.6	n.a.	−13.7	−29.9
Percentage change from Feb., 1960	−56.1	+0.9	−0.1		+2.6	−0.8
Danville	$ 227	15,169	$ 5,199		$ 45	$ 79
Percentage change from Jan., 1961	−47.2	−2.0	−37.0	+1	−14.5	−22.7
Percentage change from Feb., 1960	−52.2	−0.8	−0.6	−5	−3.3	+13.9
Decatur	$ 200	37,769	$ 9,944		$ 108	$ 129
Percentage change from Jan., 1961	−0.5	+0.6	−31.2	−4[c]	−13.9	−29.4
Percentage change from Feb., 1960	−57.7	+2.5	−3.6	−5[c]	−2.3	+4.3
Galesburg	$ 60	9,801	$ 3,981		n.a.	$ 53
Percentage change from Jan., 1961	+100.0	−6.2	−33.9	n.a.		−26.0
Percentage change from Feb., 1960	+53.8	−2.8	+0.0			+8.4
Peoria	$ 408	61,757[c]	$13,920		$ 200	$ 335
Percentage change from Jan., 1961	+1.0	−1.4	−52.3	+5	−16.4	−15.4
Percentage change from Feb., 1960	−66.0	+1.8	−12.6	+11	−10.5	+6.5
Quincy	$ 92	13,673	$ 4,406		$ 47	$ 86
Percentage change from Jan., 1961	−45.9	−1.0	−37.1	+7	−21.5	−50.0
Percentage change from Feb., 1960	−21.4	+12.5	−5.8	+7	−1.2	+12.2
Springfield	$ 1,746	40,386[c]	$11,394		$ 120	$ 386
Percentage change from Jan., 1961	+278.7	−9.4	−28.2	−4[c]	−15.7	−12.1
Percentage change from Feb., 1960	+43.0	−0.5	−1.9	+11[c]	−6.3	+21.6
SOUTHERN ILLINOIS						
East St. Louis	$ 75	18,310	$ 7,290		$ 130	$ 88
Percentage change from Jan., 1961	+525.0	−3.3	−29.1	n.a.	−17.1	−42.1
Percentage change from Feb., 1960	+19.0	+6.9	−6.8		−1.8	+0.7
Alton	$ 586	23,572	$ 4,189		$ 41	$ 39
Percentage change from Jan., 1961	−65.8	−1.1	−33.1	n.a.	−10.2	−45.3
Percentage change from Feb., 1960	+334.1	−6.3	−8.4		−8.1	−5.2
Belleville	$ 223	12,888	$ 4,143		n.a.	$ 51
Percentage change from Jan., 1961	+1,138.8	−5.3	−34.7	n.a.		−43.4
Percentage change from Feb., 1960	+78.4	+7.4	−0.4			−1.8

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for January, 1961. Comparisons relate to December, 1960, and January, 1960. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending February 3, 1961, and February 5, 1960.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN APRIL

Further signs of business improvement were in evidence during April. Unemployment declined a little more than seasonally; and employment rose, although rains held down farm hiring and kept the total increase below the normal seasonal gain (see page 5). Steel production has picked up, and automobile output reached 446,740 cars, 9 percent above March. The index of industrial production rose 3 points to 105 percent of the 1957 average.

Retail sales were down 1 percent to slightly under $18.0 billion. Deliveries of new, domestically produced cars by automobile dealers increased 3 percent to an average daily rate of 18,400 and department store sales were up, but other retail sales declined.

Construction Continues Steady

The value of new construction put in place in April rose about 11 percent over March to $4.3 billion. As a consequence, the seasonally adjusted annual rate was about 2 percent above that in the preceding two months and 3 percent above the year-earlier month.

Private construction expenditures in April amounted to $3.0 billion, a 9 percent increase over March. The advance in the adjusted annual rate of private expenditures reflected mainly a 15 percent gain in private nonfarm residential building to $1.6 billion, compared with a normal increase of 10 percent. Public outlays were up 17 percent from March, whereas the normal seasonal rise is about 16 percent. The resulting rise in the seasonally adjusted annual rate of public construction was due almost entirely to increases in highway expenditures and military construction.

Rise in Consumer Debt

After declining for two consecutive months, instalment debt of consumers increased $48 million in March on a seasonally adjusted basis. This expansion in debt outstanding reflected mainly a rise in extensions from the February low. Increases in personal loans and in consumer goods (other than automobile) paper more than offset an adjusted fall of $65 million in automobile paper. Total instalment debt outstanding at the end of March amounted to $42.1 billion, about 5 percent more than the year-earlier total.

Noninstalment debt increased $158 million, reflecting primarily a seasonally adjusted addition of $130 million in charge accounts outstanding, which had declined in the preceding two months. Total short- and intermediate-term consumer debt rose $206 million to $53.9 billion.

Proposed Federal Tax Changes

The Administration has asked Congress to make a number of changes in federal tax laws to stimulate private capital spending and to narrow certain tax loopholes. One change is intended to stimulate business investment in new plant and equipment by allowing tax credits for such expenditures. Another provision would put new limits on tax deductions for business expense, including a $30-a-day ceiling on a businessman's deductible living costs while away from home.

Another measure would restrict the present law allowing concerns operating abroad through subsidiaries to defer United States tax payments on overseas earnings until the income is repatriated; deferral would no longer apply to earnings acquired in 29 countries, mostly in Western Europe. So-called "tax haven" companies would lose the deferral privilege entirely. The Administration has also called for a 20 percent withholding tax on dividends and on interest received on bank deposits, savings and loan "deposits," and government and corporate securities. In addition, it has requested abolition of the law permitting stockholders to exclude from taxable income their first $50 of dividends and to subtract a 4 percent credit on the amount above $50.

Again Sales Rise, Inventories Fall

For the second consecutive month, sales of manufacturing and trade firms in March showed a gain over the preceding month after adjustment for seasonal influences. The rise of 2 percent carried the total for the month to $60.9 billion. The sales gain helped to reduce total business inventories $600 million to an adjusted $91.1 billion, lowering the inventory-sales ratio to 1.50, compared with 1.54 in February and 1.51 in March, 1960.

The increase in sales was shared by all levels of business. Both manufacturers' and retailers' sales went up $500 million, the former to $29.5 billion and the latter to $18.3 billion. Sales at wholesale rose from $12.9 billion to $13.2 billion. The reduction in inventories occurred in manufacturing and in retail trade, with almost two-thirds of the decline the result of a cut in automobile dealers' stocks.

Higher ordering of primary and fabricated metals and of nonelectrical machinery accounted for much of a 2 percent increase in new orders received by manufacturers in March. The nondurable goods industries also reported gains.

PROSPECTS FOR HOMEBUILDING IN THE 1960'S · By Burnham O. Campbell · Page 6

ILLINOIS BUSINESS REVIEW

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

Monetary Policy for Recovery

Just at the recession low, some progress was made in getting long-term interest rates down. Yields on long-term governments fell back to 3.75 percent at the beginning of May, or about where they were in the closing months of 1958. Short-term rates were also back to a point midway between the easy-money low of the 1958 recession and the tight-money peak of the early 1960 recovery.

The situation in today's capital markets is described as being in "delicate balance." The prospective improvement in business suggests to market analysts that stronger action may be needed simply to preserve the existing rate structure. Uncertainties arise because there is a heavy accumulation of available short-term funds; most of the net free reserves are held by country banks; and the huge foreign holdings of dollar assets are subject to withdrawal at any time.

Conflict of Policy

The current policy is now said to be firmly established but it, too, may be in a state of precarious balance. The business improvement ahead — though possibly short-lived and short of full-employment — will look very promising for a few months at least. Inventories appear to be in process of swinging all the way from liquidation to accumulation in one quarter. With government expenditures also rising rapidly, not much more is needed to create the impression of prosperity regained.

The Fed has shown that its heart is not in the effort to bring interest rates down. It holds that bringing unemployment down by an easy-money policy is impossible because most of the unemployment is structural rather than cyclical. The widely voiced notion that it "acted promptly in easing" in 1960 is not supported by the facts. The market was not strong enough to sustain the peak rates, and the Fed's "active" anti-deflationary role in the shift did not come until early reports of the recession threatened to make high rates an issue in the election campaign.

Even economists who are generally sympathetic to the Fed position feel that the tight money policy of 1959 was pushed too far. Arthur Burns, former chairman of the Council of Economic Advisers, cited that policy as helping to explain the "unsatisfactory character of the business-cycle expansion from 1958 to 1960" and pointed out that "long-term rates advanced faster than during a comparable stage of any business cycle during the past 100 years."

A strong stand for lower long-term rates was recently taken by the Joint Economic Committee of Congress. Its report called the ½ percent decline from the peak inadequate and proposed a further bond-buying campaign by the Fed, beyond a "token" gesture, to drive rates down still further. Difference of opinion was evident, however, in the strong dissent by the committee's minority.

The Council of Economic Advisers also recommended lower rates as a means of stimulating private investment and thus reversing the slowdown in our rate of growth. Other branches of the Administration appear to be more nearly satisfied with the "progress" already made. Secretary of the Treasury Dillon contented himself with affirming the need to keep long-term interest rates low "for some period of time." The fact is that the Administration is a captive of its own orthodox views on gold and international finance. It clings to the relatively worthless objective of attracting international "hot money" with high short-term rates in order to prevent gold outflows, and this renders its "low-interest-rate policy" ineffective.

Government Action to Assure Prosperity

The Administration has been very successful in stimulating a favorable swing in public sentiment. This is reflected in the drive of the stock market to new highs at a time when profits were falling and in the reversal of business policy which interrupted the inventory cycle in its downward phase. Unfortunately the economy cannot live on sentiment alone. The question is, What will happen when this temporary stimulus has worn off?

The Council of Economic Advisers is necessarily sensitive to the government's role as economic stabilizer and apparently concurs in some criticisms of recent fiscal policy. Herbert Stein, director of research of the Committee for Economic Development, stated before the Joint Economic Committee in February that the government budget has, since the beginning of 1960, been balanced at too high a level of unemployment; it "yields a surplus in excess of $5 billion when unemployment is as high as 5 percent." Arthur Burns attributes the recent recession in part to the "violent shift in Federal finances between the first quarter of 1959 and the second quarter of 1960," when we had a deficit-to-surplus "turnaround of about $24 billion" in seasonally adjusted annual rates. Others have pointed to the lack of federal expansion in recent years as contributing to the growth in unemployment; federal employment has remained stable since 1953.

The Council currently feels satisfied that it can foresee improvement in activity through the rest of this year, but not necessarily enough to reduce unemployment below 6 percent. Looking further ahead, it does not foresee any basis for a recovery that would close "the growing gap between what we can produce and what we do produce."

This longer view appears to be at the root of the differences of opinion about what should be done. Burns lines up on the optimistic side. He hopes for full employment in 15 to 18 months, in view of the fact that the problem of recovery from one recession "is not very different from another" and in view "of the substantial increases in Federal spending that were initiated. . . ."

The Council, however, puts more weight on the fact that much of the gain to be derived from measures adopted so far is very short-term in character. This is evident in the temporary extended unemployment compensation program. Expenditures will build up quickly to a peak-

(Continued on page 8)

COOPERATIVE HOME FINANCING

Home ownership during this century has risen steadily. Seventy years ago two-thirds of all nonfarm families in this country lived in rented houses, whereas today six in ten own their homes. A major influence contributing to the uptrend in home ownership has been the development of savings and loan associations. These organizations have facilitated the purchase of homes through long-term, low-interest loans out of funds obtained by pooling the savings of large numbers of individuals.

Concept and Growth

The concept of the cooperative, or mutual, building society was brought to this country in 1831 from England, where it had become a popular means for low-income wage-earners to buy their own homes. Typically, all members of one of these early building associations agreed to save a stipulated monthly sum until the group had accumulated enough money for the purchase of one home, at which time the highest bidder was given the right to borrow and repay the association in small monthly instalments. This procedure continued until all members owned homes mortgage-free, when the association usually was dissolved.

It became apparent in time that aspiring homeowners could acquire homes more quickly if persons desiring only to save were invited to join so that their savings would swell the lending reserves. For this reason, associations also became savings institutions and, in doing so, acquired a reason for a continuing existence.

As the nation's expanding population shifted westward, the number of savings and loan associations increased rapidly, totaling more than 5,300 in 1900 and reaching an all-time high of 12,300 in 1929. During the depression, when real estate values fell sharply and defaults on mortgages were common, large numbers of associations were forced out of business and assets shrank to a low of $6 billion in 1939 compared with $9 billion in 1929. Since that time, the business has been undergoing the greatest economic growth in its history, though with only half as many establishments as at the 1929 peak. Contributing to this growth has been the greater stability and protection given through federal insurance of savings accounts in member associations up to $10,000, as well as through a federal reserve agency — the Federal Home Loan Bank System — serving members in much the same way the Federal Reserve System does commercial banks.

A Local Business

Today, the savings and loan business consists of more than 6,200 associations, located in virtually every urban center in the United States. These associations still are essentially local in character, being owned and utilized primarily in their home communities.

Although their activities are mostly confined to home financing and the encouragement of thrift, savings and loan associations do a large volume of business. In 1959, they received a gross income of $3 billion and employed about 55,000 persons.

Over 23 million persons today are saving money with these organizations and another 8 million are paying for homes purchased through them. In 1959, savings and loan associations financed 41 percent of all homes built or purchased in the nation, making them the largest lender in home mortgaging. Altogether, more than $15 billion in mortgages were placed on their books during 1959, the largest volume in association history. About 44 percent of this total was utilized for purchase of existing houses and 35 percent went into the construction of approximately 400,000 dwelling units. The remainder was applied to miscellaneous purposes, such as modernization and reconditioning of homes. These associations held savings balances of more than $54 billion in 1959, an amount second only to those held by commercial banks. Association savings accounts attract persons from all areas of life, but mortgage loans are used principally by persons in the lower- and middle-income brackets.

Associations may be chartered either by states or by the federal government. Although state associations are more numerous — making up nearly 70 percent of the total — federal associations tend to be larger. Of the $63 billion in total assets held by all associations in 1959, federal establishments held about 55 percent.

Associations in Illinois

The first cooperative building association in Illinois was not established until 1851. Despite its late start, the business in Illinois grew briskly, particularly in Chicago. By 1900 Illinois had 400 associations with total assets of $40 million. Today, there are nearly 600 savings and loan establishments in the State, a number surpassed only by Pennsylvania's 844. Total assets here exceed $6 billion.

These associations are the major financial media for both savings and home buying within the State. In 1959 more than $5 billion, or approximately one-half the total balance of savings in the five major types of savings institutions, was deposited with Illinois savings and loan associations. In order to purchase homes, Illinoisans borrowed $1.3 billion in 1959 from the associations, nearly two-thirds of the amount borrowed from all financial agencies for this purpose. Savings and loan associations financed six out of every ten Illinois homes mortgaged in 1959, the highest proportion in any state.

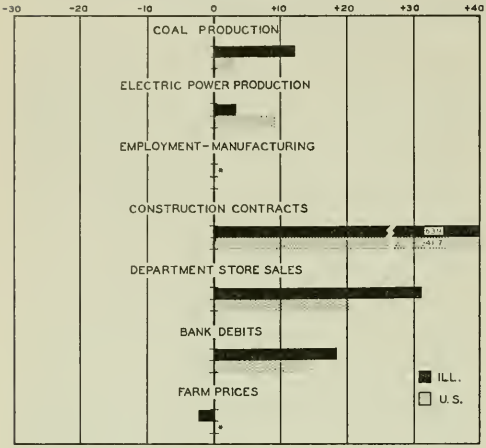
Associations are widely distributed throughout the State. Almost all cities of more than 10,000 population, as well as many smaller ones, have at least one. The greatest concentration, however, is in the Chicago area. In 1959 more than two-fifths of the associations with seven-tenths of the total assets were in the Chicago metropolitan area.

Although the average Illinois association in 1959 held assets of $11 million, there were 18 in the State with more than $40 million in assets. All these, with the exception of one association in Aurora, were located in Cook County.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes February, 1961, to March, 1961



* No change.

ILLINOIS BUSINESS INDEXES

Item	Mar. 1961 (1947-49 =100)	Percentage change from Feb. 1961	Percentage change from Mar. 1960
Electric power[1]	238.9	+ 3.1	− 3.9
Coal production[2]	77.4	+12.1	−17.4
Employment—manufacturing[3]	93.7	+ 0.0	− 8.3
Weekly earnings—manufacturing[3]	170.5[a]	− 0.4	+ 1.4
Dept. store sales in Chicago[4]	123.0[b]	+ 1.7	+ 2.5
Consumer prices in Chicago[5]	130.2	− 0.2	+ 0.8
Construction contracts[6]	310.1	+63.9	+ 7.6
Bank debits[7]	244.5	+18.1	+ 3.7
Farm prices[8]	83.0	− 2.4	+ 1.2
Life insurance sales (ordinary)[9]	350.8	+23.7	+ 4.0
Petroleum production[10]	119.6	+ 9.3	− 0.8

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Data for February, 1961, compared with January, 1961, and February, 1960. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Mar. 1961	Percentage change from Feb. 1961	Percentage change from Mar. 1960
	Annual rate in billion $		
Personal income[1]	409.6[a]	+ 0.8	+ 3.2
Manufacturing[1]			
Sales	354.0[a]	+ 1.7	− 3.3
Inventories	53.3[a, b]	− 0.6	− 1.8
New construction activity[1]			
Private residential	17.0[c]	+10.3	−11.2
Private nonresidential	16.0[c]	+ 3.6	+ 4.8
Total public	13.4[c]	+10.4	+12.5
Foreign trade[1]			
Merchandise exports	20.1[d]	+ 1.5	+ 6.1
Merchandise imports	12.6[d]	− 6.9	−18.9
Excess of exports	7.5[c]	+19.6	+118.4
Consumer credit outstanding[2]			
Total credit	53.9[b]	− 0.4	+ 5.4
Instalment credit	42.1[b]	− 0.5	+ 6.1
Business loans[3]	36.4[b]	+ 1.7	+ 1.2
Cash farm income[3]	27.4[d]	−25.4	+11.1
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	102[a, c]	0.0	− 6.4
Durable manufactures	95[a, c]	+ 1.1	−12.0
Nondurable manufactures	111[a, c]	+ 0.9	− 0.9
Minerals	96[a, c]	0.0	0.0
Manufacturing employment[4]			
Production workers	92	− 0.3	− 8.4
Factory worker earnings[4]			
Average hours worked	98	+ 0.5	− 1.5
Average hourly earnings	174	+ 0.4	+ 1.3
Average weekly earnings	171	+ 0.9	− 0.2
Construction contracts[5]	278	+41.7	+ 3.9
Department store sales[2]	145[a]	0.0	+ 5.1
Consumer price index[4]	128	0.0	+ 1.4
Wholesale prices[4]			
All commodities	120	− 0.1	− 0.2
Farm products	90	− 0.2	− 0.3
Foods	110	− 0.8	+ 2.1
Other	128	+ 0.1	− 0.4
Farm prices[3]			
Received by farmers	90	0.0	+ 1.1
Paid by farmers	121	0.0	+ 0.8
Parity ratio	80[f]	− 1.2	0.0

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for February, 1961, compared with January, 1961, and February, 1960. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961 April 29	April 22	April 15	April 8	April 1	1960 April 30
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,235	1,245	1,170	1,100	1,151	1,395
Electric power by utilities mil. of kw-hr.	14,254	14,311	14,434	14,182	14,163	n.a.
Motor vehicles (Wards) number in thous.	139	150	138	117	124	165
Petroleum (daily avg.) thous. bbl.	7,249	7,245	7,249	7,227	7,351	7,014
Steel 1947-49=100	108	104	101	98	95	128
Freight carloadings thous. of cars	544	533	522	506	506	643
Department store sales 1947-49=100	146	144	130	128	151	151
Commodity prices, wholesale:						
All commodities 1947-49=100	119.4	119.5	119.4	119.5	119.5	120.0[a]
Other than farm products and foods 1947-49=100	128.1	128.0	127.9	127.9	127.9	128.7[a]
22 commodities 1947-49=100	87.4	87.2	87.3	86.4	86.2	85.4
Finance:						
Business loans mil. of dol.	31,492	31,626	31,734	31,813	31,959	30,927
Failures, industrial and commercial number	369	320	383	343	350	325

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for April, 1960. n.a. Not available.

RECENT ECONOMIC CHANGES

Wholesale Prices Hold Steady

Wholesale prices fell slightly in March to 119.8 percent of the 1947-49 average from 119.9 in the preceding month. Lower meat and processed poultry prices reduced the index for processed foods to 109.6, from 110.5 in February. An increase in the general level of industrial prices was largely offsetting.

As shown in the accompanying chart, the over-all index of wholesale prices has remained quite steady since January, 1958, ranging between a low of 118.9 and a high of 120.0. Movements in the three major components, however, have been varied. During 1960, there was a slight downward movement in industrial prices, whereas prices of farm products and processed foods moved in the opposite direction.

Security Offerings Decline

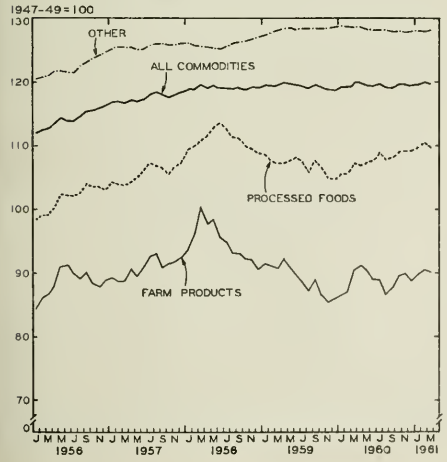
New corporate securities offered for cash sale during the first quarter of 1961 fell more than 30 percent below the preceding period, according to the latest report by the Securities and Exchange Commission. The lower volume of new security offerings reflected primarily a decline in financing by electric and gas utilities, manufacturing, and communications companies. Corporations offered $1.9 billion worth of securities in the first three months of this year, compared with $2.8 billion in the fourth quarter of 1960. The entire decline was in debt issues. First-quarter offerings were also down about $400 million from the corresponding period a year ago.

Gross National Product

The nation's output of goods and services dipped below $500 billion in the first quarter of 1961, according to preliminary estimates by the Council of Economic Advisers. The seasonally adjusted annual rate in the first quarter, at $499.5 billion, was down less than 1 percent from 1960's fourth-quarter rate of $503.5 billion.

The major factor in the first-period decline in GNP was a further increase in the rate of inventory liquidation. Inventories were being reduced at an annual rate of $4.5 billion in the first quarter, compared with a $3 billion rate in the previous period and an accumulation rate of $11.4 billion in the first quarter a year ago.

WHOLESALE PRICE INDEXES



Source: Bureau of Labor Statistics.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	*1st Qtr.** *1961*	*4th Qtr. 1960*	*1st Qtr. 1960*
Gross national product	499.5	503.5	501.3
Personal consumption	329.0	330.8	323.3
Durable goods	39.5	43.2	44.2
Nondurable goods	153.0	152.9	150.5
Services	136.5	134.7	128.6
Domestic investment	61.0	66.0	79.3
New construction	39.4	40.3	40.8
Producers' durable equipment	26.4	28.7	27.1
Change in business inventories	−4.5	−3.0	11.4
Nonfarm inventories only	−4.7	−3.4	11.0
Foreign investment	5.0	4.6	1.2
Government purchases	104.5	102.1	97.5
INCOME AND SAVINGS			
National income	n.a.	n.a.	414.4
Personal income	407.5	408.5	396.2
Disposable personal income	357.1	358.1	347.0
Personal saving	28.1	27.2	23.7

* Preliminary estimates by Council of Economic Advisers.
Source: Department of Commerce.

A drop in personal consumption spending contributed to the over-all decline in GNP during the quarter as a $3.7 billion drop in durable goods purchases more than offset gains in nondurable goods and services. Private investment in new construction and producers' durable equipment was also down in the January-March period.

Gains in exports and government spending canceled out part of the contraction in the other components. Net exports increased to an annual rate of $5 billion in the first quarter from $4.6 billion in the preceding period, while government purchases rose to $104.5 billion.

Employment Situation Improves

The employment situation improved slightly in April as a larger-than-seasonal decline in the number of jobless was combined with a less-than-seasonal increase in employment.

Unemployment fell by 533,000 during the month to about 5.0 million. The drop exceeded the normal seasonal decline by a small margin and, as a result, the seasonally adjusted rate declined to 6.8 percent of the labor force.

Long-term unemployment, those out of work 15 weeks or more, rose to a postwar record of over 2.1 million, indicating that structural maladjustments continue to persist despite signs of a general business pickup.

Extremely wet weather in April held the increase in total employment to 218,000, compared with a normal rise of 700,000 for this time of year. Almost all of the slack occurred in agricultural jobs, which rose by only 23,000 during the month.

Labor Department data, in thousands of workers, are as follows:

	April 1961	*March 1961*	*April 1960*
Civilian labor force	70,696	71,011	69,819
Employment	65,734	65,516	66,159
Agricultural	5,000	4,977	5,393
Nonagricultural	60,734	60,539	60,765
Unemployment	4,962	5,495	3,660
Seasonally adjusted rate	6.8	6.9	5.1

PROSPECTS FOR HOMEBUILDING IN THE 1960'S

BURNHAM O. CAMPBELL, Instructor in Economics

One need only look at the record growth in the population over 15 years of age that will occur in the 1960's to become very optimistic about the prospects for residential construction in the next ten years. The general belief that there is no present danger of a major depression and that a proper use of monetary policy can stabilize residential construction at or near the high level apparently justified by population growth helps support this bullish outlook.

In contrast to this view, there are reasons to believe that the 1960's will not show steady progress but rather a dip in homebuilding followed by recovery. It can be very misleading to look at the change in the housing population while ignoring the age composition of the change. It would be misleading to do so in the 1960's.

Furthermore, it is not enough to consider housing demand in relation to population changes alone. The significance of the population increase in the next ten years can be evaluated only with respect to the total change in housing demand in the recent past; that is, the change due to shifts in income, credit conditions, and tastes as well as in the population base. Unfortunately, this comparison provides no basis for optimism. Finally, it has never been established that monetary policy can stabilize residential construction when other, more basic conditions are not favorable.

The Population Base in the 1960's

Analysis of past data reveals a definite relationship between actual homebuilding and estimated requirements based on population changes by age classes and headship rates in each age class. Since the relevant age classes begin at 15 years, the numbers to be expected in each may be projected with some confidence for at least 15 years into the future. When the ratio of household heads to the population in each age group (the headship rate) is applied to the change in numbers in each group, the result is an estimate of the total dwelling-unit requirements due to population changes in the specified year or period.

From the decade of the 1880's through the 1940's, these estimated requirements explained changes in the level of household formations very well. Moreover, except in the 1930's, housing starts and required additions were also closely related. In other words, while changes in such factors as income and tastes may have shifted headship rates and created temporary differences between housing starts and household formations within decades, the decade level of household formations and housing starts (and to a lesser degree, the half-decade level as well) was closely limited by the concurrent shift in the population base — at least until the 1950's.

In evaluating the prospects for residential construction in the 1960's, it is well to keep in mind this tie between required additions, household formations, and housing starts. What it indicates is that the number of additional dwelling units required by population growth will rise in the next ten years but by far less than might be suggested by the increase in the population over 15 years of age. Although the increase in the population over 15 in 1960-65 will be almost twice as large as in 1945-50, the difference in the age composition of the population increment in these two periods will mean that fewer additional units will be required by the population growth in 1960-65 than in 1945-50.

In fact, required additions in the next five years will remain below the level reached in either half of the 1940's. Then, in 1965-70 the population base for additions to the housing stock will increase much more rapidly to an all-time high. (See Table 1.) As a result, required additions for the entire decade will also reach an all-time peak (although the increase over the 1950's will be only slightly more than in several past decades).

With so much publicity given the exceptional increase in household formations expected in the near future, one may forget that the housing boom of the recent past was based on an even more exceptional concentration of additional demand for separate quarters. In neither half of the 1960's will required additions increase by as much or reach as high a level as they did in 1945-50 (when adjustment is made for the demobilization of the armed forces).

The Importance of Age Composition

Although the number of additional dwelling units required by population changes will be large (though not extraordinarily so) in the next ten years, the extreme changes in the age composition that will occur in the 1960's may well be even more important in determining the final impact of population growth on housing demand. As Table 1 shows, required additions for the early life-cycle stages will increase sharply in the next ten years (with the increase for the 25-34 age class entirely concentrated in 1965-70). Required additions for the late life-cycle stages will also increase, but the increase will be far less outstanding. Conversely, the population pressure for additions to the housing stock will be weaker than ever before at the middle life-cycle stages in the 1960's.

In 1960-65 the population base for additions to the housing stock will be strongest in the age classes where conversions are most important, where people are most susceptible to unemployment and the income elasticity of demand is highest, and where the average value of dwelling unit occupied is lowest. At the same time, the population base will decline in the age classes where postponement of household formations or the breaking up of existing households is least likely, and where the incidence of first-time ownership and the average value of units occupied is highest.

Because of this age composition, required additions may overstate the effective demand for new dwelling

Table 1. Required Additions in the 1960's and in the Recent Past
(Thousands of dwelling units)

Periods, July 1 to June 30	Age class						Total
	15-24	25-34	35-44	45-54	55-64	65 and up	
1940-50	−29	795	1,486	943	1,473	1,728	6,396
1950-60	−17	−544	1,081	1,695	1,109	1,811	5,135
1960-70	1,336	996	−471	1,275	1,825	2,198	7,159
1955-60	130	−513	555	974	582	982	2,710
1960-65	509	−120	148	663	809	1,084	3,093
1965-70	827	1,116	−619	612	1,016	1,114	4,066

Sources of data: U.S. Bureau of the Census, *Current Population Reports*, Series P-20 and P-25.

units arising from population changes in the next five years. For the same reason, a smaller real expenditure will be necessitated by a given number of required additions, demand for rental units will be stimulated (especially by the change in the population between 15 and 24 years of age), and demand for owner-occupied units will be relatively depressed. In fact, the increase in rental demand is already reflected in the higher rate of multi-family starts in the last two years.

All in all, the next five years seem to be the only period in the foreseeable future when population changes might cause a decrease in residential construction sufficient to produce a depression. If this should happen, the age composition of required additions will serve to make housing demand less responsive to credit policy and especially vulnerable to sharp curtailment as income falls. In this respect the housing market in the next five years will be unlike any since 1930-35.

There is more reason for optimism in the second half of the 1960's — mostly because of the large increase in required additions for the 25-34 age class that will occur in this half-decade. This change should create the best market ever for low-priced tract housing. However, no past residential building boom has taken place when required additions for the 35-44 age class were falling sharply, and required additions for this key age class never fell so sharply as they will in 1965-70 and never reached a negative level before. Among other things, this negative change for the 35-44 age class will tend to lower further the average value of sales starts and to make it more difficult to move up the housing ladder by exchanging sales units.

The Extraordinary 1950's

It will help in placing the next ten years in proper perspective to look briefly at the relationship between population changes, household formations, and housing starts in the recent past. During the 1950's household formations were almost half again as large as required additions and increased at the same time that the population base declined. (See Table 2.) Moreover, housing starts exceeded household formations for only the second time (the first was in the 1920's) in the last eight decades.

The change in headship rates that raised household formations above required additions in the 1950's came primarily at the early and late life-cycle stages (under 35 and over 65 years of age). The increase was greater in the first half of the 1950's and led to a relatively large change in the number of "non-normal" households and of female household heads.

Several factors probably accounted for this change in headship rates, including the postponement of demand resulting from World War II, the trend toward earlier marriages, the significant increase in life expectancy at the late life-cycle stages, and the increased mobility and change in tastes brought about by the war's impact on family ties and habits. Supporting these factors, and undoubtedly a necessary condition for their becoming effective, was the high level of employment and the growing per capita real income achieved through most of the 1950's.

The excess of housing starts over household formations in the 1950's can be explained by the following factors: the backlog of needs (household formations exceeded housing starts by over 2 million units in the 1940's, lowering the average quality of housing occupied); the postponement of replacement resulting from World War II; the increased mobility of the population; the impact of the government-insured mortgage programs on mortgage terms; and the high level of employment and the growth in real income in the last ten years.

The question arises, Can this situation continue or will future housing starts and household formations be closely limited by the change in the population base as was the case before the 1950's? No firm answer is possible, but it is apropos to point out that many of the conditions explaining the excess of housing starts over household formations and the increase in headship rates during the 1950's have a one-time effect that is now largely exhausted; among these are the quality backlog and the postponement of demand and replacement brought about by the war, the government-insured mortgage programs, and the changes in tastes and habits. Still other determinants of the extraordinary changes during the 1950's, such as mobility and income, will probably have to increase by increasing amounts in the future to have the same impact on housing demand.

In this context several recent developments merit attention. A slower rate of economic growth and increased unemployment in the last few years has been accompanied by a smaller increase in headship rates. At the same time the number of vacancies has been increasing (absolutely and relative to the housing stock). Finally, in the 1960 recession housing starts have not responded to an increase in the relative return on FHA and VA mortgages as they did in the prior postwar recessions.

Together, these recent developments imply that it may be difficult to maintain the same excess of housing starts over household formations and the same change in headship rates in the next decade that took place in the last one. Should the economy move into a depression in the next few years, the changes in headship rates that supported housing demand in the 1950's could easily be reversed.

The Prospects for the 1960's

If household formations and housing starts are limited to the number required by population changes in the 1960's, the future will indeed be black. Under this circumstance, both household formations and housing starts would be far lower than in the last ten years. The decline would be concentrated at the middle life-cycle stages and would come entirely in the market for sales units. Furthermore, the decline in the number of housing starts in 1960-65 would be even greater than the one that took place between 1925-30 and 1930-35.

There is no reason to look only at the dark side of

Table 2. Population Changes, Household Formations, and Housing Starts
(Millions of people or dwelling units)

Periods, July 1 to June 30	Change in population over 15	Required additions	Household formations	Housing starts
1920-30	14.41	5.42	5.55	7.12
1930-40	11.91	5.03	4.95	2.85
1940-50	11.87	6.30	7.97	6.12
1950-60	12.84	5.14	9.44	11.78
1960-70	22.88	7.16		
1955-60	7.29	2.71	4.14	5.91
1960-65	10.70	3.09		

Sources of data: U.S. Bureau of the Census, National Bureau of Economic Research, and Housing and Home Finance Agency.

things. If we are neither pessimistic nor overly optimistic but simply assume the future change in headship rates will be the same as in the recent past, then we could conclude that household formations will increase in the 1960's. On the other hand, we would be forced to admit that the increase would be smaller (in 1960-65 at least) than in several past periods and would completely by-pass the middle life-cycle stages.

However, even if all goes well and headship rates do increase in the 1960's as they did in the 1950's, housing starts would still fall sharply in 1960-65 (and would not increase relative to the 1950's for the entire decade) unless a continued excess of housing starts over household formations can be achieved. This excess would have to be maintained in the face of steadily increasing vacancies, and even if this could be accomplished, the probable decline in the average value of housing starts might reduce real expenditures (especially in 1960-65).

There is little chance that residential construction will increase by as much in the 1960's as in the 1950's, but whether the high level of residential building activity reached in the 1950's is likely to continue in the next ten years is more difficult to establish. Clearly, this possibility depends on what happens to headship rates and to the relation between household formations and housing starts in the 1960's.

Our considered judgment is that headship rates probably will increase in the next five to ten years, but not sufficiently to prevent a decline in residential construction. We have given several reasons for expecting a smaller increase in headship rates in the future than in the recent past. No one can count on the special conditions of the 1950's recurring, and it seems quite possible that household formations and housing starts will be closely limited by population changes in the 1960's just as in the decades before the 1950's. Thus, the largest population base for additions to the housing stock in our history may still not be large enough to prevent residential construction from falling in the 1960's.

The prospects are particularly bleak for the next five years. Even should the 1955-60 increase in headship rates be accomplished, it would still be necessary for housing starts to exceed household formations by a large amount simply to maintain the same level of housing starts as in 1955-60, by even more to keep real expenditures from falling, and by still more to increase residential construction in the next five years as in past boom periods. With vacancies increasing and the population base less responsive to credit policy, none of these conditions is likely to be met.

In the absence of further one-time changes such as stimulated housing markets in the 1950's, the one possible salvation for residential construction would seem to be a rapid increase in per capita real income, originating (as it must) outside the housing sector and proceeding at a more rapid pace than in the recent past. However, in 1960-65 at least, the same changes in age composition that will adversely affect residential construction will also adversely affect the economy in other ways, and one wonders whether the increase in real income so necessary for booming housing markets will be forthcoming from the private economy in the required dosages. Even with continued growth in real income, the best that seems possible is for residential construction to hold the level reached in 1955-60 in the next five years. No stimulus to economic expansion is in sight from this sector of the economy until after 1965, and then the stimulus will be less than in the 1950's.

Monetary Policy for Recovery

(Continued from page 2)

month rate of perhaps $2 billion and then fall off sharply as workers are re-employed or lose their rights to the additional 13 weeks of benefit payments. Those payments in the aggregate will be below average by the year-end, and with the additional payroll tax becoming effective at that time, the net effect thereafter may be negative.

The speed-up of the defense program affords another illustration. The budget data presented by Budget Director Bell suggest that there will be a quick upsurge in expenditures to a peak at the middle of this year and no further increase during fiscal 1962. Thus, we may already be getting most of the effects of the increases in defense expenditures so far proposed. After mid-1962, the course of the program depends on international developments and cannot be definitely predicted.

Will Monetary Policy Help?

What is clear from careful analysis of the budget, in other words, is that current fiscal policy does not guarantee our longer-term economic welfare. Everything the government has done so far is designed to get quick results, and Congress cannot be expected to do much more this session. Most congressmen are not likely to recognize any longer-term problem while business is improving. Hence, while fiscal action is the main reliance this year, monetary policy is the hope for continued progress after the year-end.

Since monetary policy is for the time being in a condition of stalemate, the economy is being thrown back on its own. But the key segments of the economy give little reason to look for a strong recovery. An interrupted inventory cycle is not likely to contribute much more than the cessation of liquidation, and the swing to accumulation is being achieved currently. Residential construction is not likely to be strong, for reasons spelled out in this month's special article. Net exports reached a peak in the first quarter that is not likely to be maintained. Industrial production is not likely to rise enough to produce a strong upsurge in business expenditures for new plant and equipment. The recovery, therefore, may taper off quickly. Taking the widely predicted $20 billion increase in real gross national product by year-end as an acceptable basis for calculation, it appears that 60 percent may be achieved by midyear and 90 percent by the end of the third quarter.

There is a danger, therefore, that the recovery will be a flash in the pan unless some new stimulus is provided. The anticipated changes in money markets would seem to favor moderate tightening. The inventory reversal will impose some increased demand for loans, and the government is again running a deficit. As at least partial offsets, there is a considerable volume of free funds for meeting these "short-term" demands and the business cash flow will be increasing. Additional demands for long-term funds for homebuilding, business fixed capital, and state and local government projects will probably be moderate. Unless an active policy for easy money is continued the effect will be to push interest rates back up, and this will tend to restrict further the recovery in private investment.

This prospect, that everything may be resolved unfavorably to growth in the months ahead, is the major cause of concern to those who fear our inability to solve the unemployment problem. The Council's search for new measures to promote progress beyond the short period covered by the present forces for recovery appears to be fully justified. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Housing Developments for Older People

According to *Business Week,* housing developments designed for older people are a growing business, and builders in several states are starting to tap this special market. For example, Sun City, a residential area for elderly people located just outside Phoenix, Arizona, was started in 1960 and already nearly 1,500 single family houses and 250 cooperative apartments have been sold. A similar city for elderly people called Palm City is being constructed near Palm Springs, California, at an estimated cost of $30 million. It will include 1,800 homes and 400 cooperative apartments surrounding a community shopping center, a medical-dental center, and extensive recreational facilities. Thus far, about 360 of the houses have been sold, and reservations have been made for 40 apartments.

In Sun City prices start at $8,500 for apartments and $9,150 for houses. In Palm City prices run from $9,750 for an apartment up to $17,250 for houses. Both cities have FHA financing with a minimum 3 percent down payment and a 30-year mortgage at 5.5 percent interest.

Developers of Sun City and Palm City are operating on the theory that older people prefer living among persons their own age in units specially designed for their age group. The average age of residents in Sun City is 62 years, and Palm City has limited sales to couples with at least one member aged 50 years or older. Some of the special features of the living quarters include extra wide doors and halls, ground level entrances, and higher electrical outlets and lower switches than usual.

College Trainee Survey

Management Record recently published the results of a survey of college trainees employed by a large manufacturing company. The survey was designed to determine what caused the high turnover in this group of the company's employees. Between 1954 and 1959, 1,008 graduates were hired by this company. Within one year 12 percent had terminated their employment, within two years 25 percent, within three years 34 percent, and by the end of the fourth year 40 percent. The study showed that the turnover was just as high among graduates with technical training as among those with a liberal arts background.

When asked why they terminated their employment, the college trainees most frequently gave inadequate pay as the reason for leaving the company. Other reasons given were lack of advancement opportunity, dissatisfaction with company policy, change in personal career, and poor supervision.

The company concluded from the survey that the college training program needed to be strengthened by better organization and closer controls. Apparently recruits wanted a real job to do, someone to guide them and check on their progress, and to be rewarded in terms of money and position for a job well done.

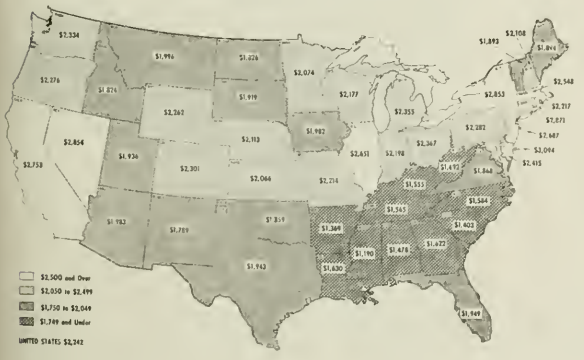
General Population Characteristics

The Bureau of the Census has reported that between 1900 and 1960 the population per square mile in the country almost doubled. In 1960 there were 50.5 persons per square mile; this figure was down slightly from 1950 because of the addition of the vast territory of Alaska to the area included. Had Alaska and Hawaii been states at the time of the 1950 Census, the population density would have been 42.6 persons per square mile. Rhode Island is the most densely populated state, with 812.4 persons per square mile, whereas Alaska has only one inhabitant for each 2.5 square miles.

The median age for the country was 29.5 years in 1960, down from 30.2 years in 1950. This was the first time that the median age had dropped in any decennial census period since the first census was taken in 1790.

The 1960 census showed there were 91 million females and 88 million males in the nation, for a female-male ratio of 100 to 97. This was up from the 1950 level when 76 million females and 75 million males were reported. The last decennial count also disclosed that there were 9.1 million women but only 7.5 million men who were 65 years of age or over in 1960.

PER CAPITA PERSONAL INCOME BY STATES, 1960



Source: U.S. Department of Commerce, *Survey of Current Business,* April, 1961, p. 11.

Personal Income Up

The April, 1961, issue of the *Survey of Current Business* reports that personal income for the entire nation was at a new high of $402 billion in 1960. This was 5 percent above 1959. Each of the 50 states and the District of Columbia shared in this increase. The percentage changes among the states showed a considerable degree of uniformity.

Per capita personal income also set a new record in nearly every state. Only in New Mexico did per capita income fall below the 1959 level. The national per capita income averaged $2,242, an increase of 4 percent from the 1959 level. Per capita income varied from a high of $3,094 in Delaware to a low of $1,190 in Mississippi. As is shown in the accompanying chart, states with high per capita incomes are concentrated in the Mideast and Far West where incomes averaged nearly 20 percent above the national average.

LOCAL ILLINOIS DEVELOPMENTS

Central Office Space in Chicago

The Real Estate Research Corporation recently conducted a study for the Chicago City Planning Department entitled *Central Area Office Space Study: Chicago, Illinois*, in which it was estimated that by 1980 an additional 13 million square feet of new office space will be constructed in downtown Chicago. This will represent a 27 percent increase in office space over 1960.

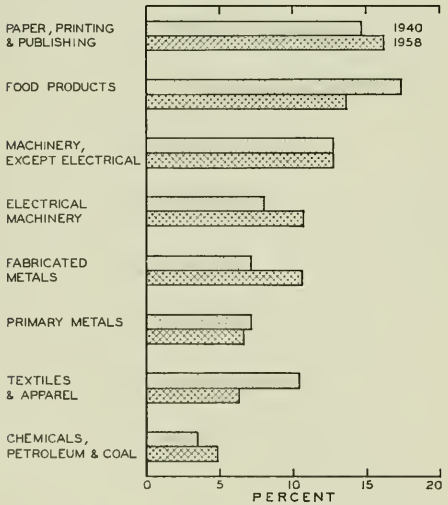
By the end of 1960 downtown Chicago had 47.6 million square feet of office space, of which about 85 percent was occupied by private users and 11 percent by government, with the remaining portion vacant. Since the end of World War II, the net gain in office space has amounted to 8.5 million square feet. Of this total, nearly 5.5 million square feet were obtained by converting existing buildings to office use. During this period 34 new central area buildings, containing about 3.9 million square feet, were constructed. There was a loss of almost 900,000 square feet of space during the period because of demolition to make room for new buildings and parking lots.

Illinois Farms

According to preliminary figures of the 1959 Census of Agriculture, Illinois ranked sixth in the nation in the number of farms, with a total of 155,000. Nearly 80 percent of these farms were classified as commercial, 13 percent as part-time, and 7 percent as part-retired.

Fewer than 6,000 of the Illinois commercial farms had a total value of products sold amounting to $40,000 or more. Only California, Texas, and Iowa had a larger number of farms in this classification, and the four states together accounted for about 40 percent of the country's biggest farms as measured by sales value. The largest group of Illinois farms (25 percent) had sales between $10,000 and $19,000 a year, and over 60 percent fell in the upper four classes having products valued at $5,000 or more a year.

RELATIVE IMPORTANCE OF LEADING INDUSTRIES IN CHICAGO MANUFACTURING EMPLOYMENT, 1940 AND 1958



Source: Chicago Department of City Planning, *Employment in the City of Chicago with Projections to 1965*, Economic Base Study Series No. 1.

Small Retailer Project

New knowledge about factors affecting the survival of small retailers will be the objective of interviews with about 450 owners of retailing establishments in Illinois.

The survey, which will get under way in June, is part of a project sponsored by the Bureau of Economic and Business Research at the University of Illinois. Relationships between such factors as the size and line of a firm, the type of community in which it is located, and its competitive practices and merchandising methods will be investigated in an attempt to develop guides to the minimum factors essential for success in a given line.

Retailers will be selected from nine areas chosen for their distinctive economic characteristics. These include Bloomington, Centralia, Jacksonville, La Salle, Rockford, Springfield, West Frankfort, Winnetka, and a cluster of small towns in Cumberland and Clark counties.

Community Manpower Planning

The Illinois State Employment Service has recently released its survey of skilled manpower requirements and training resources in Macon County titled *Decatur Blueprint for Manpower 1960-1965*. The study was designed to supply data which can be used in vocational counseling in the county to direct high school students and young workers into career fields where local employment opportunities will be the greatest.

The survey estimates that by 1965 about 2,900 skilled workers will need to be added to the present skilled working force of 16,400 persons. Also, an additional 2,150 workers will be needed to replace those who will drop out of the labor force because of marriage, retirement, or death.

The study reveals that only 55 percent of the area's future skilled manpower requirements can be met by the present local training programs of schools, employers, and trade unions. This leaves an estimated shortage of about 2,300 skilled workers by 1965. Professional, scientific, and engineering workers make up 35 percent of the shortage, followed by clerical personnel with 20 percent.

Manufacturing Employment in Chicago

Data released by the Department of City Planning in Chicago show that between 1940 and 1958 there was a marked shift in the structure of manufacturing employment in Chicago. In 1940 total manufacturing employment was about evenly divided between the durable and nondurable goods industries; in 1958 the share of the durable goods sector had increased to nearly 60 percent.

In 1958, paper, printing, and publishing was the leading manufacturing industry in terms of employment, displacing the food products industry, which led in 1940 (see chart). The textiles and apparel industry dropped from third place in 1940 to seventh place in 1958.

The fabricated metal industry experienced the largest relative growth during the 18-year period. Its share of total manufacturing employment increased from 7 percent in 1940 to 11 percent in 1958. The shares of the chemical-petroleum-coal and electrical machinery industries also rose significantly.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

March, 1961

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$52,615[a]	1,272,366[a]	$478,351[a]		$21,376[a]	$17,824[a]
Percentage change from Feb., 1961	+31.2	−1.2	−4.3	+.31	+18.1	+8.0
Percentage change from Mar., 1960	+41.0	−1.7	−0.6	+10	+3.7	+3.2
NORTHERN ILLINOIS						
Chicago	$39,267	940,088	$346,569		$19,846	$15,436
Percentage change from Feb., 1961	+16.4	−0.4	−6.5	+20	+18.4	+8.6
Percentage change from Mar., 1960	+44.1	−1.7	−9.1	+9	+3.9	+3.0
Aurora	$ 2,218	n.a.	$ 7,584		$ 83	$ 157
Percentage change from Feb., 1961	+450.4		−1.3	+50	+12.2	−8.2
Percentage change from Mar., 1960	+176.6		−10.3	+12	−0.4	+0.7
Elgin	$ 576	n.a.	$ 5,260		$ 50	$ 128
Percentage change from Feb., 1961	+308.5		+9.8	n.a.	+12.1	+8.8
Percentage change from Mar., 1960	+12.9		−2.7		+1.0	+7.9
Joliet	$ 256	n.a.	$ 8,439		$ 91	$ 116
Percentage change from Feb., 1961	−63.5		−11.7	+50	+14.5	+4.3
Percentage change from Mar., 1960	−76.2		−11.5	+9	−2.2	+2.5
Kankakee	n.a.	n.a.	$ 4,273		n.a.	$ 86
Percentage change from Feb., 1961			+2.6	n.a.		+31.0
Percentage change from Mar., 1960			−2.6			+8.7
Rock Island-Moline	$ 1,007	27,581	$ 9,283		$ 115[b]	$ 185
Percentage change from Feb., 1961	+123.8	−7.1	−3.8	n.a.	+7.3	−13.3
Percentage change from Mar., 1960	+30.8	−3.0	−4.5		+0.7	−2.9
Rockford	$ 2,378	54,258[c]	$15,969		$ 220	$ 272
Percentage change from Feb., 1961	+212.9	+2.6	−3.5	+29[c]	+16.2	+2.3
Percentage change from Mar., 1960	+242.7	−1.6	−3.8	+2[c]	−3.0	+1.0
CENTRAL ILLINOIS						
Bloomington	$ 397	10,941	$ 5,008		$ 87	$ 149
Percentage change from Feb., 1961	+92.7	−4.3	−1.8	n.a.	+16.4	+15.2
Percentage change from Mar., 1960	−41.4	+0.1	+7.3		+19.8	+17.3
Champaign-Urbana	$ 2,459	15,410	$ 7,433		$ 87	$ 133
Percentage change from Feb., 1961	+2,759.3	−3.2	+4.4	n.a.	+12.9	+9.6
Percentage change from Mar., 1960	+357.1	−0.6	+9.0		+6.7	+6.5
Danville	$ 130	14,137	$ 4,865		$ 49	$ 67
Percentage change from Feb., 1961	−42.7	−6.8	−6.4	+49	+9.1	−4.0
Percentage change from Mar., 1960	−87.6	−1.2	−5.2	+16	+1.6	−0.2
Decatur	$ 166	34,803	$ 9,339		$ 126	$ 134
Percentage change from Feb., 1961	−17.0	−7.9	−6.1	+52[c]	+16.6	+0.4
Percentage change from Mar., 1960	−56.5	−4.5	−5.4	+14[c]	+5.2	+12.7
Galesburg	$ 419	9,527	$ 3,572		n.a.	$ 46
Percentage change from Feb., 1961	+598.3	−2.8	−10.3	n.a.		+0.4
Percentage change from Mar., 1960	+84.6	−1.0	−2.9			−8.2
Peoria	$ 1,350	59,105[c]	$19,993		$ 230	$ 315
Percentage change from Feb., 1961	+230.9	−4.3	+43.6	+32	+14.9	+2.2
Percentage change from Mar., 1960	−2.9	−2.2	+32.6	+13	−2.8	−8.9
Quincy	$ 44	12,983	$ 4,515		$ 55	$ 77
Percentage change from Feb., 1961	−52.2	−5.0	+2.5	+43	+16.3	−0.6
Percentage change from Mar., 1960	−53.7	+15.5	+3.5	+14	+10.9	+7.2
Springfield	$ 902	39,877[c]	$11,018		$ 142	$ 352
Percentage change from Feb., 1961	−48.3	−1.2	−3.3	+43[c]	+18.2	+25.0
Percentage change from Mar., 1960	−5.2	−1.5	−1.2	+20[c]	+4.9	+26.2
SOUTHERN ILLINOIS						
East St. Louis	$ 324	17,634	$ 7,199		$ 148	$ 75
Percentage change from Feb., 1961	+332.0	−3.7	−1.2	n.a.	+13.8	−4.3
Percentage change from Mar., 1960	+535.3	+3.1	−3.0		−3.4	−5.3
Alton	$ 550	24,966	$ 4,143		$ 48	$ 44
Percentage change from Feb., 1961	−6.1	+5.9	−1.9	n.a.	+15.2	+7.9
Percentage change from Mar., 1960	−30.9	−3.2	−8.4		−5.1	+6.9
Belleville	$ 172	11,056	$ 3,887		n.a.	$ 52
Percentage change from Feb., 1961	−22.9	−11.2	−6.2	n.a.		−5.4
Percentage change from Mar., 1960	+212.7	−6.9	+0.5			−2.8

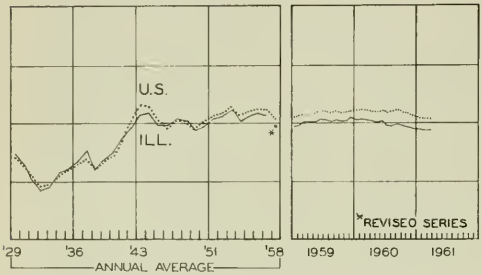
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for February, 1961. Comparisons relate to January, 1961, and February, 1960. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending March 31, 1961, and April 1, 1960.

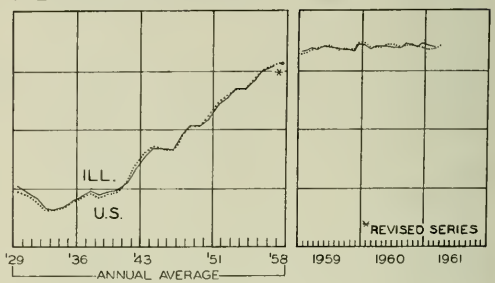
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

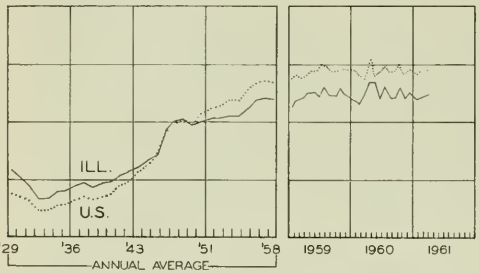
EMPLOYMENT MANUFACTURING



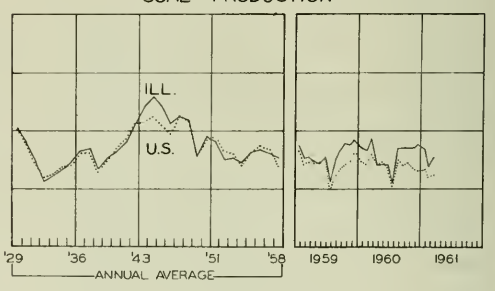
AVERAGE WEEKLY EARNINGS—MANUFACTURING



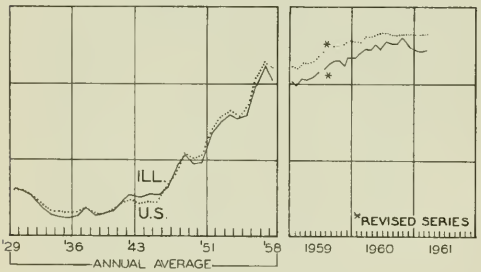
DEPARTMENT STORE SALES (ADJ.)



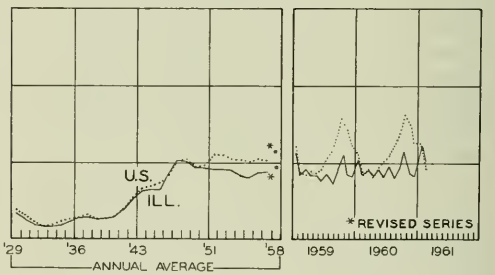
COAL PRODUCTION



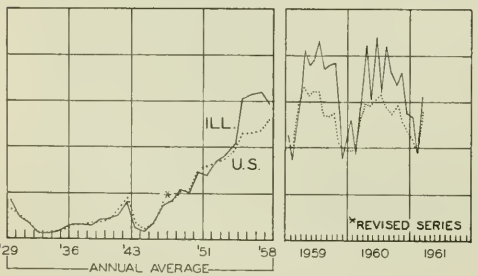
BUSINESS LOANS



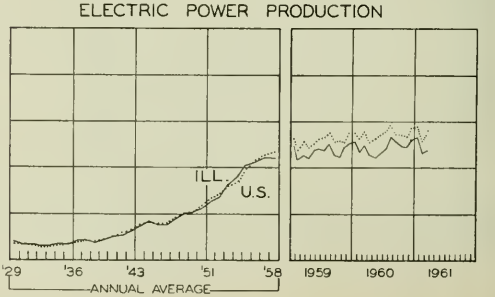
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME XVIII | JUNE, 1961 | NUMBER 6

HIGHLIGHTS OF BUSINESS IN MAY

General business conditions continued to improve during May. Steel production rose above 2 million tons a week for the first time since May, 1960; and automobile output amounted to 542,300 units, the highest monthly total so far this year. Other weekly production series continued to exhibit strength. The over-all index of industrial production added 3 points to reach 108 percent of the 1957 average, after adjustment for seasonal influences.

Unemployment in May dropped 194,000 to 4.8 million, and employment rose 1.0 million to 66.8 million. These changes were about normal for this time of year; the seasonally adjusted rate of unemployment actually increased slightly to 6.9 percent of the labor force. Retail sales rose 1 percent to $18.1 billion, largely as a result of a 12 percent gain in the daily rate of automobile sales.

Construction Edges Up

According to preliminary estimates, the value of new construction in May amounted to $4.8 billion. This amount was 11 percent above April outlays, compared with a normal seasonal increase of 9 percent at this time of year. As a consequence, the seasonally adjusted annual rate of new construction rose about 2 percent in May. The total for the month was 3 percent above the year-earlier month.

Private construction expenditures in May totaled $3.3 billion, an increase of almost 9 percent over April. The resulting advance of 1 percent in the adjusted annual rate of private outlays was almost entirely due to a 10 percent gain in private residential building that carried this type of spending above $1.8 billion. Public expenditures on new construction were up 18 percent, compared with a normal rise of 13 percent between April and May. This resulted in a 4 percent increase over April in the adjusted annual rate of public outlays, which reflected primarily an unadjusted 54 percent advance in highway spending.

Forecast of Capital Outlays Cut

Although an increase in business investment in new plant and equipment is still anticipated in the third quarter of this year, the first-quarter annual rate of actual expenditures was revised downward to $33.85 billion. This was $550 million less than the estimate published in March and had the effect of reducing the annual estimate by $100 million from the earlier forecast for 1961.

The estimate for the second quarter is unchanged from the March forecast of a $33.8 billion annual rate. The third-quarter rate is now expected to rise to $34.60 billion, with a further increase in the fourth quarter to an annual rate of $35.54 billion implied in the current estimate of $34.46 billion for the year.

Inventories Turn, Sales Steady

The liquidation of inventories was apparently brought to an end in April as manufacturers added $100 million to the book value of their stocks while retailers and wholesalers held theirs at the levels of the preceding month. The turnabout by manufacturers reflected a $200 million increase in stocks of nondurable producers which was only partly offset by a decline in the durable goods segment. At the end of April, total manufacturing and trade inventories amounted to $91.1 billion, of which $53.4 billion were held by producers, $24.4 billion by retailers, and $13.3 billion by wholesalers.

Sales in April by manufacturing and trade firms held steady at a seasonally adjusted $60.1 billion, after making gains in the two preceding months. However, manufacturers experienced an increase of 2 percent in sales, most of it in durables, that carried their seasonally adjusted total to $30.2 billion. On the other hand, sales by wholesalers fell back $400 million to $12.0 billion, and retail volume dropped $200 million to $17.9 billion.

Consumer Debt Down Again

After a small rise in March, instalment debt of consumers in April resumed the contraction that began in January. A seasonally adjusted decline of $139 million left the total of this type of short- and intermediate-term consumer debt at $42.0 billion. Decreases of $145 million in automobile paper and $41 million in other consumer goods paper outstanding were only partially offset by a $46 million increase in personal loans. There was little change in repair and modernization loans.

Noninstalment debt of consumers was reduced $104 million, after allowance for seasonal factors. A large reduction in amounts due on charge accounts and a small decrease in single-payment loans, coupled with a small rise in service credit, accounted for this change. The decline in all types of consumer debt amounted to $243 million after seasonal adjustment. The total of all types outstanding at the end of April aggregated $54.0 billion, up $1.6 billion from the year-earlier date.

CANADA'S ECONOMIC PROBLEM — THE UNITED STATES · By Fred M. Gottheil · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. Signed articles represent the personal views of the authors and not necessarily those of the University or the College of Commerce. The *Review* will be sent free on request.

Second-class mail privileges authorized at Champaign, Illinois.

International Monetary Reform

The Economist (London, May 6, 1961) set forth the view that "Important reforms in the world's monetary systems are on the way." Behind this statement lies the recognition that the present system, an outmoded gold exchange standard, is not only inadequate for the world economic development we seek but actually dangerous to the prosperity we have already achieved.

There are two kinds of problems urgently crying for international monetary reform. The first has to do with the need for adequate liquidity in world monetary systems. No longer is the world's gold supply expected to meet the needs of anticipated economic growth. The second concerns means of establishing terms for international transactions that will make exchanges of goods and capital movements mutually advantageous. Deflation of a country's domestic economy in order to adhere to fixed exchange rates is no longer considered an acceptable alternative.

The Problem of Reserves

Most recent discussions have tended to focus on the first of these problems. This is entirely understandable, since it is the most direct problem of money supply and the orientation of those who have written is primarily financial. The basic objectives are those long accepted in the operation of national monetary systems: to provide adequate financial reserves, by means of which each country would be enabled to meet its international obligations during temporary periods of stress, and to keep the over-all level of reserves growing in line with the growth of economic activity in order to prevent monetary tightness from becoming an obstacle to progress.

Three plans for dealing with the problem have been proposed. We agree with *The Economist* in favoring the most comprehensive of these, but if it fails to win approval, a simpler plan should certainly be adopted.

The Triffin Plan (Robert Triffin of Yale University) calls for the most extensive revision of existing institutions. It would make the International Monetary Fund (IMF) a kind of central bank for central banks. Each country would agree to hold part of its reserves as IMF deposits (initially at least one-fifth). This would internationalize foreign exchange reserves and eliminate the danger of a run on a key national currency, like the dollar weakness and mounting gold outflows experienced last summer. The IMF would also be authorized to make loans and investments, expanding its credit in the same way as any national central bank, but certain restrictions are proposed to prevent inflationary use of this authority.

The Bernstein Plan (E. M. Bernstein, former director of research, IMF) proposes to increase reserves by two means within the scope of IMF's present articles of agreement. First, the present quotas of the members would be integrated with their working reserves and each would be permitted to draw freely on its quota to meet balance-of-payments deficits. Second, the great trading countries would undertake in advance to lend the IMF stated amounts of their currencies, so that the surpluses of some countries could automatically be drawn upon to finance the deficits of other countries.

The Stamp Plan (Maxwell Stamp, former Bank of England official and IMF director) proposes that the IMF should issue Fund Certificates totaling, say, $3 billion in the first year, to be used in providing aid for underdeveloped countries. Member countries, though not necessarily all, would presumably agree to treat these certificates as reserves, accepting them in payment for goods and transferring them to each other to settle balances.

The Problem of Exchange Rates

Evidently there are various ways in which quasi-banking operations can be used to expand the available international means of payment. Preferably they should be carried on by an international institution capable of making banker's decisions on the basis of the circumstances affecting each loan. Banking operations as such, however, do not encompass the related problems of stabilization and control of the international monetary system in the interest of mutual progress.

There would have to be decisions of monetary policy that do not flow from day-to-day transactions. The rate of credit expansion should be speeded or slowed from time to time as conditions of production and trade changed.

There would also have to be procedures for adjusting exchange rates, in the light of balance-of-payments positions and relative price and wage levels, in order to correct a basic disequilibrium. Even the largest reserves could be dissipated by persistent losses, and attempts to bolster the position of a deficit country by loans might prove vain as well as costly. Countries in this position often retreat into protectionism — through the imposition of tariffs, quotas, and other restrictions — and the result is harmful to all concerned.

Sometimes a disequilibrium may arise from a country's own policies. This is usually true of countries that insist on exercising the privilege of internal inflation. In other cases, disequilibria may arise from special situations. The dollar shortage that existed just after World War II practically required exchanges unfavorable to exports from this country. After the years of reconstruction, however, during which the industrial countries were able to equip their industry with modern productive tools, the competitive advantage conferred by the rates set in that special situation have altogether different consequences.

The tradition-minded country may regard exchange rates as sacrosanct, may struggle with its deficits, may raise its sights on the tolerable level of unemployment, and may eventually resort to restriction to keep unemployment in specific areas from growing. It then makes far less than its potential contribution to world prosperity.

(Continued on page 8)

SATISFYING THE NATION'S SWEET TOOTH

Candy, a delicacy which in ages past could be afforded only by the wealthy, today finds a place in the diet of millions, rich and poor. Actually, widespread consumption of candy is chiefly a twentieth century development. Until about eighty years ago, much of the nation's candy output came from small retail confectioners who produced the bulk of their candy requirements in the kitchens of their stores.

The candy industry in this country did not begin to acquire major significance until after 1869, when mechanical power was first utilized in the manufacturing process. As cheaper, more hygienic candy products became increasingly available with the gradual replacement of hand operations by machinery, the industry grew rapidly. Between 1890 and 1910, the value of confectionery shipments jumped 145 percent to $135 million.

However, it was not until after 1915, when the candy bar was placed on the market, that mass-production, assembly-line methods came into general use. Since 1920, large, efficient candy factories have sprung up to satisfy the nation's sweet tooth, and a mass-distribution system which developed concurrently has made candy the most widely available food in the United States today.

The Industry Today

The shift of candy from a luxury item to a popular national food is shown by the fact that the confectionery industry ranks eighth in value added by manufacture among the more than 30 primary food processing industries in the United States. In 1960, the industry shipped nearly 3 billion pounds of confectioneries — an all-time high — which sold for about $1.2 billion. The industry employs 76,000 persons.

Generally, candy manufacturing is a nationwide industry composed mostly of small business enterprises. The 1958 Census of Manufactures revealed that more than 90 percent of the 1,430 candy establishments employed fewer than 100 persons and that more than 70 percent had fewer than 20 employees. However, a small number of major producers hold a sizable share of total production, the eight leading companies accounting for 20 percent of total employment and 25 percent of total value of shipments in 1958.

The nation's candy supply is distributed to the public through nearly 1.5 million retail outlets, a number surpassed only by the cigarette industry. Small businesses, which constitute the majority of these outlets, account for nearly one-half of the nation's total candy sales. The remaining sales are made through numerous chain organizations, including confectionery stores owned by candy manufacturers, and vending machine operators.

Trends and Problems

Probably the most important change made by the industry in the postwar era has been in methods of distribution. Before World War II, more than 61 percent of total shipments were distributed to retailers through the nation's 10,000 jobbers or wholesalers. However, the burgeoning postwar expansion of large retail organizations, particularly supermarkets, led many of these larger outlets to deal directly with candymakers in order to obtain adequate supplies. Some even bought candy companies or became candy manufacturers by establishing their own plants. Today, 52 percent of candy producers' sales are made to retailers, but this figure reached as high as 60 percent in 1953.

Another important trend, which started originally with the introduction of candy bars and was stimulated in recent years by the development of supermarkets, has been the increased utilization of transparent packaging. As a consequence, bulk confectioneries, once the basic specialty of the industry, now account for less than 15 percent of total volume; today, the same items are pre-weighed and packaged in various quantities.

Although the candy industry has grown during the postwar era, it has expanded at a slower rate than all food industries as a group. This sluggishness stems partly from the fact that annual per capita consumption during this period has remained nearly static at 17 pounds; hence, increases in candy volume have resulted chiefly from the rise in population.

National Candy Center

Illinois is a giant in candy production. Nearly one billion pounds of confectioneries were processed in its 125 candy factories during 1960. This huge volume made up about one-third of total national production and accounted for more than one-fourth of total candy sales. The dominance of the State in candymaking is further indicated by the fact that its annual sales are double those of New York, the state's nearest rival.

The development of the Illinois candy industry is primarily the result of the state's strategic location at the hub of the nation's transportation system and near the center of population. This has made it possible for candy manufacturers seeking national markets to bring together the bulk of their raw material requirements from the farmlands of the Midwest and Illinois for processing and distributing to all parts of the country with minimum transportation charges.

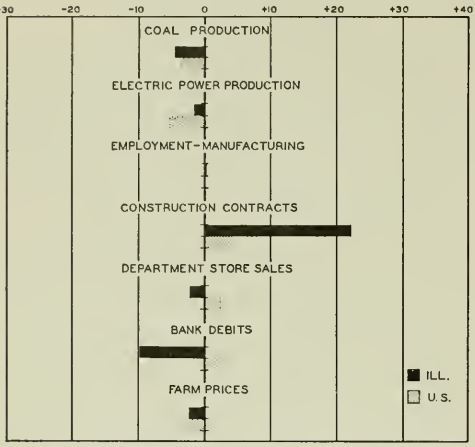
The industry here is centered primarily in the Chicago area. However, a number of factories are scattered throughout the State. Some larger downstate candy establishments are located in Centralia, Robinson, Zion, Moline, Bloomington, and Danville.

Largely explaining the high ranking of Illinois in candymaking is the tremendous volume of a few major producers found here. Curtiss Candy Company with a total employment of 4,000 is the state's largest candy company. Among the other nationally known candy manufacturers are E. J. Brach and Sons, Bunte Brothers, Cracker Jack, Walter H. Johnson, Mars, and Williamson. All are established in the Chicago area. Together, these firms employed an estimated three-fourths of the state's 15,000 candy workers.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS[a]

Percentage changes March, 1961, to April, 1961



[a] Not seasonally adjusted.

ILLINOIS BUSINESS INDEXES

Item	Apr. 1961 (1947-49 =100)	Percentage change from Mar. 1961	Percentage change from Apr. 1960
Electric power[1]	235.3	− 1.5	+ 4.5
Coal production[2]	73.9	− 4.4	+ 5.7
Employment—manufacturing[3]	93.9	+ 0.2	− 7.2
Weekly earnings—manufacturing[3]	171.8[a]	+ 0.8	+ 0.2
Dept. store sales in Chicago[4]	129.0[b]	+ 4.9	− 3.7
Consumer prices in Chicago[5]	130.1	− 0.1	+ 0.5
Construction contracts[6]	379.5	+22.4	− 9.7
Bank debits[7]	220.7	− 9.8	+ 8.2
Farm prices[8]	83.0	− 2.4	+ 1.2
Life insurance sales (ordinary)[9]	310.4	−11.5	0.0
Petroleum production[10]	117.6	− 1.7	+ 0.3

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Data for March, 1961, compared with February, 1961, and March, 1960. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Apr. 1961	Percentage change from Mar. 1961	Percentage change from Apr. 1960
	Annual rate in billion $		
Personal income[1]	410.3[a]	+ 0.1	+ 2.1
Manufacturing[1]			
Sales	362.4[a]	+ 2.0	− 2.6
Inventories	53.4[a, b]	+ 0.2	− 2.4
New construction activity[1]			
Private residential	19.8[c]	+14.9	− 4.6
Private nonresidential	16.4[c]	+ 2.4	+ 5.5
Total public	15.8[c]	+17.3	+12.5
Foreign trade[1]			
Merchandise exports	23.2[d]	+15.7	+ 6.4
Merchandise imports	14.8[d]	+17.6	−10.7
Excess of exports	8.4[d]	+12.5	+59.9
Consumer credit outstanding[2]			
Total credit	54.0[b]	+ 0.1	+ 3.5
Instalment credit	42.0[b]	− 0.2	+ 4.3
Business loans[2]	35.9[b]	− 1.5	− 0.5
Cash farm income[3]	27.3[d]	− 0.7	+ 5.7
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	105[a, e]	+ 2.9	− 3.7
Durable manufactures	99[a, e]	+ 4.2	− 6.6
Nondurable manufactures	113[a, e]	+ 1.8	0.0
Minerals	96[a, e]	0.0	− 2.0
Manufacturing employment[4]			
Production workers	93	+ 0.6	− 7.4
Factory worker earnings[4]			
Average hours worked	98	+ 0.3	− 0.3
Average hourly earnings	175	+ 0.4	+ 2.2
Average weekly earnings	172	+ 0.7	+ 1.9
Construction contracts[5]	290	+ 4.2	− 1.8
Department store sales[2]	148[a]	+ 1.4	− 3.9
Consumer price index[4]	128	0.0	+ 1.0
Wholesale prices[4]			
All commodities	119	− 0.3	− 0.5
Farm products	88	− 2.2	− 3.3
Foods	109	− 0.5	+ 2.1
Other	128	− 0.1	− 0.5
Farm prices[3]			
Received by farmers	88	− 2.2	− 1.1
Paid by farmers	121	0.0	0.0
Parity ratio	79[f]	− 1.2	− 1.2

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for March, 1961, compared with February, 1961, and March, 1960. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961 May 27	1961 May 20	1961 May 13	1961 May 6	1961 April 29	1960 May 28
Production:						
Bituminous coal (daily avg.)—thous. of short tons	1,355	1,303	1,227	1,219	1,235	1,429
Electric power by utilities—mil. of kw-hr.	14,390	14,352	14,278	14,206	14,254	13,938
Motor vehicles (Wards)—number in thous.	154	148	154	148	139	172
Petroleum (daily avg.)—thous. bbl.	7,054	7,061	7,013	7,143	7,249	6,815
Steel—1947-49 =100	121	118	115	113	108	109
Freight carloadings—thous. of cars	579	568	551	544	544	640
Department store sales—1947-49 =100	137	146	157	140	146	139
Commodity prices, wholesale:						
All commodities—1947-49 =100	118.9	119.1	119.1	119.3	119.4	119.7[a]
Other than farm products and foods—1947-49 =100	127.8	127.9	127.8	128.0	128.1	128.2[a]
22 commodities—1947-49 =100	85.8	86.7	86.5	87.6	87.4	86.3
Finance:						
Business loans—mil. of dol.	31,586	31,883	31,804	31,905	31,492	31,368
Failures, industrial and commercial—number	368	303	368	399	369	299

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for May, 1960.

RECENT ECONOMIC CHANGES

Manufacturers' Sales and Inventories

Manufacturers' inventories turned up in April, reversing the steady decline which began last September. The value of manufacturers' inventories at the end of the month stood at $53.4 billion, up almost $100 million from the March level. At the same time sales moved up for the third straight month, rising 2 percent to $30.2 billion in April, while incoming orders reached $30.7 billion, the highest point in 16 months.

All of the April increase in inventories was centered in the nondurable goods industries as producers of durable goods continued to trim stocks during the month (see chart). By the end of April inventories of durable goods manufacturers had fallen about $2 billion over the past eight months. The latest monthly decline amounted to $140 million and left durable goods inventories at less than $30.2 billion in April.

While inventories of durables continued to fall, manufacturers' sales of durable goods turned up in February and reached $14.2 billion in April. As a result, the ratio of inventories to sales in the durable goods sector fell to 2.13 in April, compared with 2.21 in March.

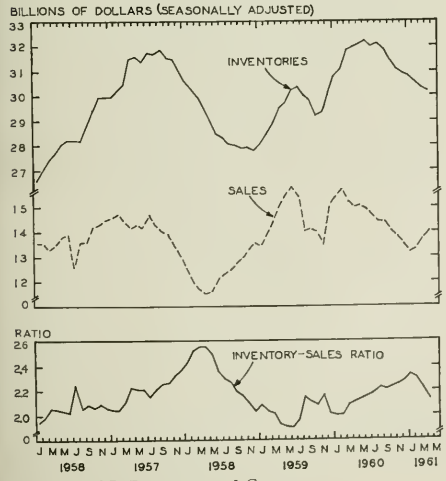
Personal Income

Personal income increased in April to a seasonally adjusted annual rate of $410.3 billion, a gain of $500 million from the preceding month and $8.4 billion from the April, 1960, rate.

The latest rise was centered entirely in wages and salaries, marking the second consecutive month that aggregate payrolls have advanced. The April increase of $2.2 billion in payrolls was spread through all industries, with the manufacturing group accounting for more than half of the over-all advance.

The rise in payrolls was partly offset by reductions in the flow of agricultural income and transfer payments. The latter was almost $1.5 billion below the March rate, which included a stepped-up rate of $1.8 billion in disbursements of National Service Life Insurance dividends to veterans. Normally such payments would be spread over the remainder of the year.

SALES AND INVENTORIES OF DURABLE GOODS MANUFACTURERS



Source: U.S. Department of Commerce.

Construction Contract Awards

The dollar volume of contract awards for future construction fell to $3.3 billion in April, about 2 percent below the same month last year. Continued weakness in contracts for single-family housing was the chief contributing factor in the year-to-year decline. April commitments dropped to 74,588 units, a six-year low for the month and 14 percent under April, 1960. The decline in single-family housing awards was partly offset by an increase in contract awards for multi-family units. In dollar volume, total residential awards amounted to about $1.5 billion in April, off 2 percent from a year ago.

Also contributing to the over-all decline was a 5 percent reduction in heavy engineering contracts during the month. Awards were down from $833 million a year ago to $794 million in April of this year. Contract awards for nonresidential construction were almost unchanged from April, 1960, levels.

Machine Tool Orders

Net new orders for metal-cutting machine tools fell to $41.6 million in April, a drop of more than 24 percent from the March total of $54.9 million. Domestic buying slipped to $31.8 million in April from $40.8 million in the previous month. Foreign business was also off during the month, dropping from $14.1 million to $9.8 million. For the first four months of the year total net new orders amounted to $171.6 million, compared with $176.3 million in the same period last year.

Shipments of metal-cutting tools were also reduced in April, falling to $39.4 million, compared with $42.0 million in March. This raised the industry's backlog of business to five months at the end of April.

Employment

Increased hirings in such key durable goods industries as steel, autos, and heavy machinery, along with seasonal gains in construction and other outdoor work, raised total employment during May by over a million workers. The increase put the number of jobholders at 66.8 million, the second highest total on record for the month. A year ago employment reached 67.2 million workers.

Unemployment during the month declined by 194,000 persons to 4.8 million. This was slightly less than the normal seasonal drop and, as a result, the seasonally adjusted rate of unemployment inched up to 6.9 percent of the labor force. The total number of jobless in May included about 1.9 million long-term unemployed, about 900,000 of whom have been without work for more than six months.

Labor Department data, in thousands of workers, are as follows:

	May 1961	*April 1961*	*May 1960*
Civilian labor force	71,546	70,696	70,667
Employment	66,778	65,734	67,208
Agricultural	5,544	5,000	5,837
Nonagricultural	61,234	60,734	61,371
Unemployment	4,768	4,962	3,459
Seasonally adjusted rate	6.9	6.8	5.1

CANADA'S ECONOMIC PROBLEM—THE UNITED STATES

FRED M. GOTTHEIL, Assistant Professor of Economics

Only a few months ago, addressing a political gathering on the state of economic affairs in Canada, Lester B. Pearson, leader of Her Majesty's Loyal Opposition in Canada's House of Commons, rhetorically asked his audience: "Have we escaped the colonial frying pan only to have jumped into the Washington fire?" Such emotive queries reflect the feelings of more than one Canadian. The Prime Minister himself has on occasion and particularly on the eve of general elections made similar sharp remarks. Indeed, if Canadians agree on anything, it is generally on this issue of Canadian-American relations.

There exists in Canada a genuine fear of being economically and culturally overwhelmed by its friendly, wealthy southern neighbor. Although this fear is not of recent origin, its intensity has sharpened markedly during the past decade to almost panic proportions. And not without some cause.

Relations between Canada and the United States are not relations between equals. Our population exceeds 180 million. Canadians, by comparison, number only 18 million, most of them hugging the 3,000 miles of our joint border. Our gross national product should surpass $500 billion this year; Canada's will approximate $35 billion. The United States is virtually self-sufficient, with little more than 4 percent of its GNP directly related to the external market and almost all its capital formation from domestic resources. Canada, on the other hand, is heavily dependent upon international economic intercourse. As much as 30 percent of her total product is tied to the international market, and over 20 percent of her capital formation originates outside Canada.

Problem One: External Ownership

Historically, the Canadian frontier has long been challenged by external capital. The exceptional growth of the Canadian West before World War I, largely a result of the railway boom, was principally financed by outside funds, the major contributor then being England. Yet even as early as 1914, American investments in Canada amounted to fully one-third of total non-Canadian capital. By 1926, United States investments equaled British, and by the close of World War II, this country had clearly replaced England as Canada's chief supplier of capital.

Few Canadians would deny the tremendous contributions this capital has made to Canadian economic growth. New industries were formed in the postwar era that would otherwise have been impossible, creating jobs for the growing Canadian labor force. Whole new communities were founded, particularly in the oil and mining regions of the West and the iron ore areas of northern Quebec. Canada, as a result, discovered new markets and, in general, prospered considerably as American capital continued to flow in throughout the fifties.

Table 1. Canada's International Indebtedness
(Billions of dollars)

Item	1939	1949	1955	1959
Direct investment	2.3	3.6	7.7	11.8
Private portfolio investment	2.6	2.3	3.2	4.6
Other	2.5	3.0	3.9	6.2
Gross liabilities	7.4	8.9	14.8	22.6
Liabilities to U.S.	4.5	6.4	11.1	16.9

Source: *Canada Year Book, 1960*, p. 1123.

Paradoxically, this source of wealth-creation has also become the source of one of Canada's biggest economic headaches. In just ten years, from 1949 to 1959, Canada's gross external liabilities increased 154 percent to a volume of $22.6 billion (see Table 1). Our share of this total was no less than 75 percent. Roughly half took the form of direct investment, that is, funds owned and controlled by non-Canadians. During the 1949-59 period, the share of direct investment increased from 40 percent to 52 percent.

Two important economic facts must be considered in light of these liabilities. First, capital immigration creates its own emigration. While sums of capital enter Canada as investment, other sums must inevitably leave the country in the form of interest and dividends. Second, the increasing size of direct investment in Canada's total external liabilities aggravates external control over Canadian enterprise. The implications here transcend pure economics and become as well an important political factor in international, particularly Canadian-United States, relations.

In 1957, 50 percent of Canadian manufacturing was owned by nonresidents, and 56 percent was subject to foreign control. These percentages mark an increase over the 1954 figures of 47 percent and 51 percent respectively. To an alarming degree, Canadians are losing control over their own enterprises. This fact strikes hard at the marrow of all nationalists—and few in Canada are not. The direct investment of American funds in Canada has literally transformed many critical Canadian industries into American "annexes."

In some industries, United States control is a *fait accompli*. For example, in 1960 United States corporations and individuals controlled 95 percent of Canadian automobiles, 77 percent of Canadian rubber, 75 percent of petroleum, 60 percent of the Canadian electrical industry, and 51 percent of chemicals and of mining and smelting. Such overwhelming control has frightened many in Ottawa. James E. Coyne, Governor of the Bank of Canada, declared last year that Canada is being "pushed down the road that leads to loss of any effective power to be masters of our own household and ultimate absorption in and by another."

Most Canadians recall the Ford deal of the 1957-58 recession. At that time, with great numbers of Canadians unemployed, Communist China offered to purchase 1,000 automobiles and trucks from Ford of Canada. This order, welcomed by Canadians (particularly in the auto-producing area), was ultimately refused. Although Canadian law permits nonstrategic trade with China, United States law forbids under penalty any United States corporation or its subsidiaries to trade with China. Canadians looked upon this as interference in Canadian affairs and an infringement on national sovereignty.

On still other grounds, Canadians strongly resent United States control. Many think that Canadian industries are used as a stabilizing device for our economy. When the United States is in recession, the argument runs, the parent company can, by internal corporate manipulations, take over its subsidiary's market or at least part of its export market. By such policy, the United States can effectively export its unemployment to

Canada. Although no evidence of such action exists, the possibility still lurks as a potential threat to Canada's economic health.

Related to this is another problem. Subsidiaries in Canada are always at a disadvantage in competing with the parent company for external markets, since most research and development is located in the parent company's laboratories. Thus technological advances in Canada are not only dependent upon the United States, but invariably are introduced too late for best market results.

Still another disheartening factor emerging from outside control is that most personnel in the upper echelons of the United States subsidiaries in Canada are American citizens. Canadian industries, most feel, are treated by the parent organization merely as a seasoning locale for American executives. As a result, not only is the upward mobility of aspiring Canadians cut short of the key positions, but those in control are essentially interested in the longer-run considerations, both in terms of their ultimate position and the development of the parent organization. These interests may not always be consistent with the welfare of the Canadian economy.

Problem Two: International Balances

In international trade, as in industrial development, Canada's dependence upon the United States is substantial. Throughout the decade of the fifties, approximately 60 percent of Canadian exports went to the United States. In turn approximately 70 percent of Canada's total imports originated south of the border. While this north-south trade has been exceptionally profitable for Canada as well as the United States, the mere preponderance of United States trade with Canada results in the fate of Canadian industry being determined by decisions made outside Canada.

If the United States should cut its imports even moderately, the effect on Canadian external trade would be dramatic. Indeed, at this time, Canada's important oil exports to the United States are a delicate matter. Canadians are having trouble keeping a foothold in the United States oil market in the face of the strong oil lobby in Washington. Other situations of this kind are not improbable, considering that 82 percent of wood products and paper, 76 percent of nonmetallic minerals, and 66 percent of Canadian fisheries exports are absorbed by the United States market. Thus the paradox in Canadian-United States economic relations once more emerges: the very lucrative trade that Canada carries on with the United States creates its own problem.

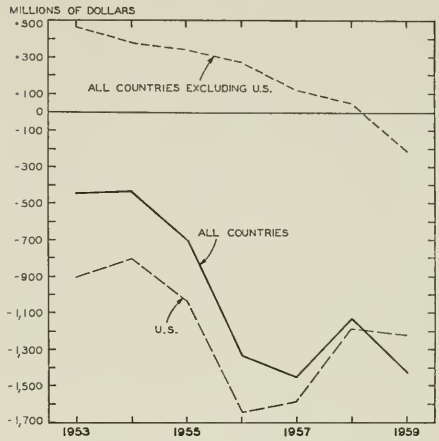
Aside from the problems involved in trade with the United States, Canada's external market is further endangered by our policy concerning specific world export markets. For example, the disposal of United States surplus wheat significantly below world prices has drawn sharp criticism from Canadian farmers.

Table 2. Canada's Balance of Payments
(Millions of dollars)

Transactions	1953	1955	1957	1959
With all countries:				
Current receipts.....	5,737	6,072	6,622	6,859
Current payments.....	6,180	6,770	8,077	8,288
Current account balance	−443	−698	−1,455	−1,429
With the United States:				
Current receipts.....	3,443	3,700	4,070	4,376
Current payments.....	4,347	4,735	5,649	5,591
Current account balance	−904	−1,035	−1,579	−1,215
Interest and dividends	−334	−388	−480	−537
Net capital movement..	+244	+425	+1,068	+1,192

Source: *Canada Year Book, 1960*, pp. 1050-51.

CANADA'S CURRENT ACCOUNT BALANCES



Source: *Canada Year Book, 1960*, pp. 1050-51.

Any loss of exports is serious for a country whose trade is unbalanced. Canadian current account deficits to the rest of the world soared from $443 million in 1953 to $1,429 million in 1959 (see Table 2). To a large degree, this international financial deficit reflected Canada's payment relations with the United States. Only in 1959 did Canada experience an adverse balance with other countries and this of course further aggravated the payments deficit to the United States (see chart).

Thus, quite unmistakably, Canada's balance of payments is strongly affected by its relations with the United States. A significant percentage of the annual outflow of payments to the United States takes the form of interest and dividend payments. Not only have these payments increased during the 1953-59 period, but they have become an increasing part of the total annual deficits to the United States — from 36 percent in 1953 to 44 percent in 1959.

Behind this rise are the capital flows that have been singled out by Canadian economists and government people as one of the critical factors in Canada's adverse trade balance. The last line in Table 2 shows the net flow of capital from the United States to Canada. This item has increased most sharply of all and has indeed made possible the large current account deficits. In 1959, the $1.2 billion deficit with the United States was virtually erased by additional investments in Canada. What is regarded as the unhealthy aspect of this situation is that the rising interest and dividend payments are relatively stable, sometimes called a "perpetual leakage," whereas new investment is more volatile and might, under adverse circumstances, be cut back drastically. Furthermore, each year's investment adds to the problem, since the capital funds from which interest and dividends derive cumulate year by year into an ever higher external liability.

Solutions Put Forward in Canada

More vigorously than ever before, Canadians are attempting to formulate policies that would reverse the trend toward increasing United States participation in

Canadian economic life. The task indeed seems formidable. For the inroad of United States capital into Canada was to a large measure a response to Canadian overtures. Canadian legislation in the postwar period enticed United States dollars with attractive tax concessions. And for good reason. Without question, these United States funds were an instrumental factor in Canada's extensive economic growth.

Nevertheless, on both sides of the House, policies are being proposed as possible solutions to the problems of a perpetual adverse balance of trade and foreign control of Canadian industry. Generally, these recommendations take on the character of a Canadianization process. Legislation has been proposed to govern the proportion of Canadians on boards of directors of United States subsidiaries, to "open up" these companies to Canadian investment in equity shares, to grant tax benefits to these companies if they place Canadians on their boards and offer equity shares to the Canadian public, and to grant Canadian-owned companies that compete with our subsidiaries certain tax benefits. The government has already increased the remittance tax rates on profits of our subsidiaries from 5 percent to 15 percent.

Another kind of solution is being sought in diversification of external markets. In the autumn of 1958, Prime Minister Diefenbaker announced Canada's intention to shift 15 percent of her external trade from the United States to the United Kingdom. Unfortunately, the Prime Minister never pointed out exactly how or when this will be done. Canada is now in no position to execute policy concerning tariff increases against United States commodities lest the United States retaliate. Although such statements as "imports must be replaced by domestic production" can be heard at any political or economic address on Canadian-United States relations, the mechanics of implementing such a policy are never seriously discussed. Canadian import statistics certainly present no evidence of any geographical shift.

Furthermore, the United States provides Canada with its most profitable export market. A shift in exports will result in lesser immediate gains from trade. Canada can of course seek new markets and expand others. But even here, the prospects of expanding the external market sufficiently to offset the preponderance of trade with the United States are relatively dim.

Canada's economic future is and will undoubtedly continue to be closely tied to the United States. There exists a deep, uneasy concern by many that "corrective" policies restricting United States "encroachment" on Canadian economic activity may kill the goose that has laid the golden eggs. This seems to be the concern particularly of Canada's Minister of Finance, Donald Fleming, who is known to be a bitter opponent of proposed "Canadianization" policies. While Mr. Fleming in his budget presentation of 1960-61 cautioned Canadians to save more to reduce Canada's reliance on foreign capital, he ruled out such policies as import restrictions, quotas, and restraints on Canadian tourist spending. The Royal Commission Report (Gordon Report) also warns against unnecessary and possibly harmful restrictive policies, but nonetheless concedes that Canadian industries are "too much under foreign control."

Thus, even those who favor liberal and cooperative international economic relations are impelled to qualify their position. If a solution is not reached through control, preferably arrived at by coordinated Canadian-United States policy, measures not at all to our liking are likely to be adopted sooner or later.

International Monetary Reform

(Continued from page 2)

The country that enjoys a competitive advantage may also resist exchange adjustment. It may assert that it sees no evidence that wage differentials have hurt anybody. It may propose to eliminate wage differentials by bringing its own wage level up; and utilizing its advantage to impose unemployment and lack of wage progress on others, it may at least partly succeed in this. The restrictions that occur in such a situation do not work to its advantage, however. The real growth of both countries would be greater if both were contributing more effectively to mutual progress.

There is little reason to suppose, therefore, that necessary adjustments will be made by the countries themselves or by the countries and an international bank acting merely as banker. What is needed is a quasi-judicial body with substantial analytical resources. Such a body might function as a board of governors and operate not only to adjust exchange rates but to set policy on the pace of international credit expansion. What the world needs, in other words, is not just a bank, but also a superior governing body to oversee the bank's operations, to adjudicate disputes between countries, and to contribute what it can to harmonizing the internal financial policies of the member countries.

The Politics of Monetary Reform

The only road to a solution is negotiation. The United States is fortunate at the moment in having its adverse balance of payments reduced to modest proportions and in experiencing a rebound from the recent recession lows. The situation is again favorable to negotiating changes in world monetary institutions so that they may afford better protection against the threat of a liquidity crisis. For all we know, the respite may be brief.

There is, of course, serious opposition to be overcome. In economic terms, the opposition largely takes two forms — the inertia of tradition and the special interests of those who profit by things as they are. Both are illustrated by our clinging to gold. Were a satisfactory world monetary system established, gold could hardly remain a matter of serious concern.

More important is the political opposition. Many assert that agreement is impossible. This argument is supported by pointing to the large number of countries involved and the diversity of conditions affecting each. But the real clincher is supposed to be that no country wants to surrender its sovereignty to an international agency. This really misses the point. It seems to imply that we must refuse to admit our unavoidable subjection to balance-of-payment requirements, that we must prefer going down at cross purposes with our world neighbors to recognizing the need for cooperation. What is proposed is not a surrender of sovereignty, but an agreement for mutual benefit, and it should be as broad as possible, preferably on a world, and not just a Western or "free world," basis.

Others say we must wait until an emergency develops before we can hope to get action. Actually, we have the portents of emergency before us. It is less than a year since the threat to the dollar was made visible to all. Permitting such conditions to recur may preclude a rational solution. Although we may wish not to disturb shaky political relations, it is better to take constructive action now than to try to repair a breakdown in an atmosphere of crisis and recrimination. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Leaders in Retailing

Business Week recently reported a list of the top 20 retailers in the country for 1960. The Atlantic and Pacific Tea Company continued to lead all other retail companies in sales, its total approximating $5 billion. Sears, Roebuck and Company was second, with sales amounting to $4 billion. Eight of the companies had sales of $1 billion or more, compared with six in 1959 and only four in 1950. Eleven of the top 20 retailers are supermarket chains, up from only seven in 1950.

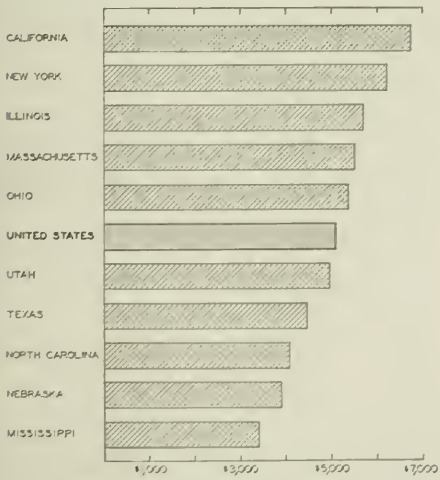
Despite the recession during the latter part of 1960, only three of the top 20 retail companies failed to show increases in sales from the previous year. American Stores had the greatest percentage increase in total sales, having gained 14 percent from their 1959 level. They were followed by W. T. Grant (7 percent) and Winn-Dixie (6 percent).

Although nearly all of the top 20 retailers experienced an increase in sales in 1960, three-fourths of the companies showed decreases in earnings from their 1959 levels, with profits of Montgomery Ward falling 51 percent. Earnings of Colonial Stores and W. T. Grant were down 28 percent and 25 percent respectively. American Stores had the largest increase in earnings, 16 percent, followed by A & P with 9 percent.

Teachers' Salaries and School Enrollment

According to the National Industrial Conference Board, the average salary paid to teachers of public elementary and secondary schools in the United States amounted to $5,200 for the 1960-61 school year. As is shown in the accompanying chart, average salaries varied considerably among the selected states. Public school teachers in California were the highest paid in the nation with an average of $6,700 per school year. The lowest average salary, $3,400, was received by teachers in Mississippi. Only in the states of California, Alaska, and New York were average salaries higher than $6,000 per school year. There were eight states, located mostly in the South and in the Plains States, where teachers' salaries were less than $4,000 per school year.

AVERAGE PUBLIC SCHOOL TEACHERS' SALARIES IN SELECTED STATES, 1960-61



Source: National Industrial Conference Board, *Road Maps of Industry*, No. 1325, May 19, 1961.

About 5 percent of the 36 million pupils enrolled in public schools in the fall of 1960 were in excess of the schools' normal capacity of 25 to 30 pupils per classroom. The number of pupils in excess of normal capacity is defined as the number exceeding those that can be accommodated without multiple sessions in the instruction rooms. The percentage of pupils in excess of the schools' normal capacity ranged from less than 2 percent in California, Indiana, and Oregon to 12 percent and 18 percent in Alaska and Alabama respectively.

Components of Population Change

Data collected in the 1960 Census of Population indicate that between 1950 and 1960 all 50 states and the District of Columbia had an excess of births over deaths, but over half of them lost population through net outmigration. However, only the states of West Virginia, Arkansas, and Mississippi, and the District of Columbia declined in total population during the decade.

About 80 percent of the states had a rate of natural increase falling between 14 and 21 percent of their 1950 population, with the highest rates of increase generally found in the Deep South and in the Mountain States.

The range of net migration rates varied widely during the decade from a net out-migration equal to 23 percent of the 1950 population in Arkansas to a net in-migration of 58 percent in Florida. Ten states had net migration gains in excess of 10 percent, whereas nine states and the District of Columbia showed net losses of 10 percent or more.

In the past decade, migrants have tended to leave the Deep South, the Great Plains, the Appalachians, and northern New England. They have moved to the mid-Atlantic seaboard, the Pacific Coast, the Southwest, Florida, and Alaska.

Residential Upkeep and Improvement

According to estimates recently released by the Bureau of the Census, Americans spent slightly over $13 billion for the upkeep and improvement of dwelling places in 1960. At the same time, about $18 billion was spent for new construction of housing units, bringing the total expenditure for all residential building and maintenance to $31 billion in 1960.

Owner-occupiers of single-family houses expended about $7.9 billion on upkeep and improvement, or about 60 percent of the year's total for all residential properties. Expenditures of all other owners totaled $4.8 billion, and renters provided nearly $400 million.

The average expenditure for upkeep and improvements for single-family houses amounted to $283, compared with an average of about $300 by all property owners. Although owners of multi unit properties generally reported larger expenditures per building than those with one-family properties, the average amount spent per housing unit was much smaller.

LOCAL ILLINOIS DEVELOPMENTS

Chicago Industrial Movements

The Department of City Planning in Chicago has released the third in a series of economic studies on Chicago development titled *Industrial Movements and Expansion, 1947-1957*. This report is concerned with the movement and expansion of manufacturing establishments in Chicago and the surrounding metropolitan area. Its purpose is to examine the magnitude and the direction of industrial movements during the 11-year period and to study the economic and land-use problems which arise as a consequence of this movement.

The study reveals that during the 11-year period 550 new plants were located in Chicago and the facilities of 825 establishments were enlarged. During the same time, however, 590 establishments were moved out of the city — 555 relocated in the metropolitan area outside Chicago and 35 left the Chicago metropolitan area completely.

The study concludes that although it is not possible to assign specific weight to any single cause for the movement of industry out of Chicago to the suburban area, high land costs in Chicago in relation to land required by modern production techniques are a major determinant. Also mentioned as likely determinants are the shift in population toward the suburban area, additional transportation facilities, and urban renewal projects.

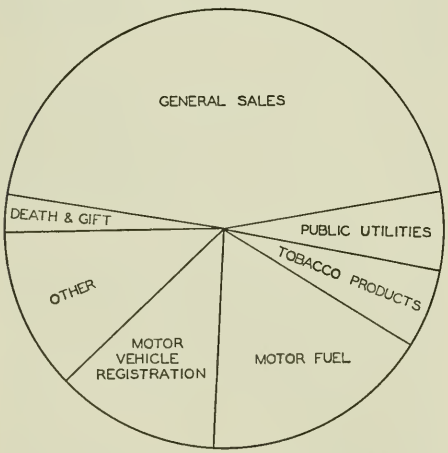
Crop Yields in 1960

According to the Illinois Co-operative Crop Reporting Service, Illinois farmers produced a record corn crop of 697 million bushels in 1960, despite adverse weather and a late harvest. This was about 4 percent above the previous record production of 673 million bushels in 1959. Last year's soybean crop amounted to 129 million bushels, 4 percent above the 1959 production but still 9 percent under the record set in 1958. Wheat production was put at 46 million bushels, compared with 43 million bushels in 1959. The oat harvest of 92 million bushels was the lowest since 1934, with the exception of the 1959 crop of 90 million bushels.

The farmers in the northern half of the State produced about 70 percent of the 1960 corn crop and nearly 90 percent of the oat yield. The southern half of the State produced nearly 70 percent of the wheat crop. Fifty-five counties in the central part of the State accounted for about 75 percent of the soybean production.

McLean County farmers continued to lead in corn production with 27 million bushels and took over first place in oat production with 4.6 million bushels. Champaign County, which has been steadily increasing its soybean production, led all other counties in the State with 5.4 million bushels. St. Clair County was first in wheat production with 1.8 million bushels.

SOURCES OF STATE TAX REVENUES, FISCAL 1960



Source: Bureau of the Census, *State Government Finances in 1960.*

County Zoning Guide Published

A manual by James E. Lee entitled *A Guide for County Zoning Administrators in Illinois* has been published by the Bureau of Community Planning, University of Illinois. This manual is intended to clarify desirable administrative zoning practices. Its purpose is to state what zoning should be concerned with and how zoning ordinances ought to be administered in order to be effective and useful instruments of public policy. Although it is primarily directed to people in counties which have already adopted county zoning, those interested in getting zoning established in their respective counties will find the discussion useful.

The manual indicates that zoning is important in any county, but it has special application in those counties which are experiencing rapid development in the fringe areas around their cities and villages. If this development goes uncontrolled, public expense will increase, and waste and disfigurement of the community can easily arise. County governments will find it advantageous to set up standards for buildings and for land development. Planning and zoning can serve to make public and private investment more secure by assuring that newly developed areas are properly located and related to streets, drainage, schools, and recreational facilities that are economical to build and maintain.

State's Tax Receipts Up

State tax receipts in Illinois were at a record high of $836 million in fiscal 1960. This sum was 13 percent higher than in fiscal 1959. All major taxes contributed to this rise, with the exception of property tax collections, which dropped 17 percent from 1959. The largest percentage increase occurred in the general sales and gross receipts taxes, which advanced 22 percent. This was due primarily to the hike in the sales tax rate from 2.5 cents to 3.0 cents, which took effect on July 1, 1959. The next largest increase was in receipts from the selective sales and gross receipts taxes — levies placed on particular commodities or services such as motor fuels, tobacco, and public utilities — with an increase of 7 percent.

From the accompanying chart, it can be observed that about three-fourths of Illinois tax revenues in fiscal 1960 were derived from general and selective sales taxes. Automobile owners supplied 30 percent of the state's tax revenue in the form of motor fuel taxes, motor vehicle registration fees, and operators' license fees.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

April, 1961

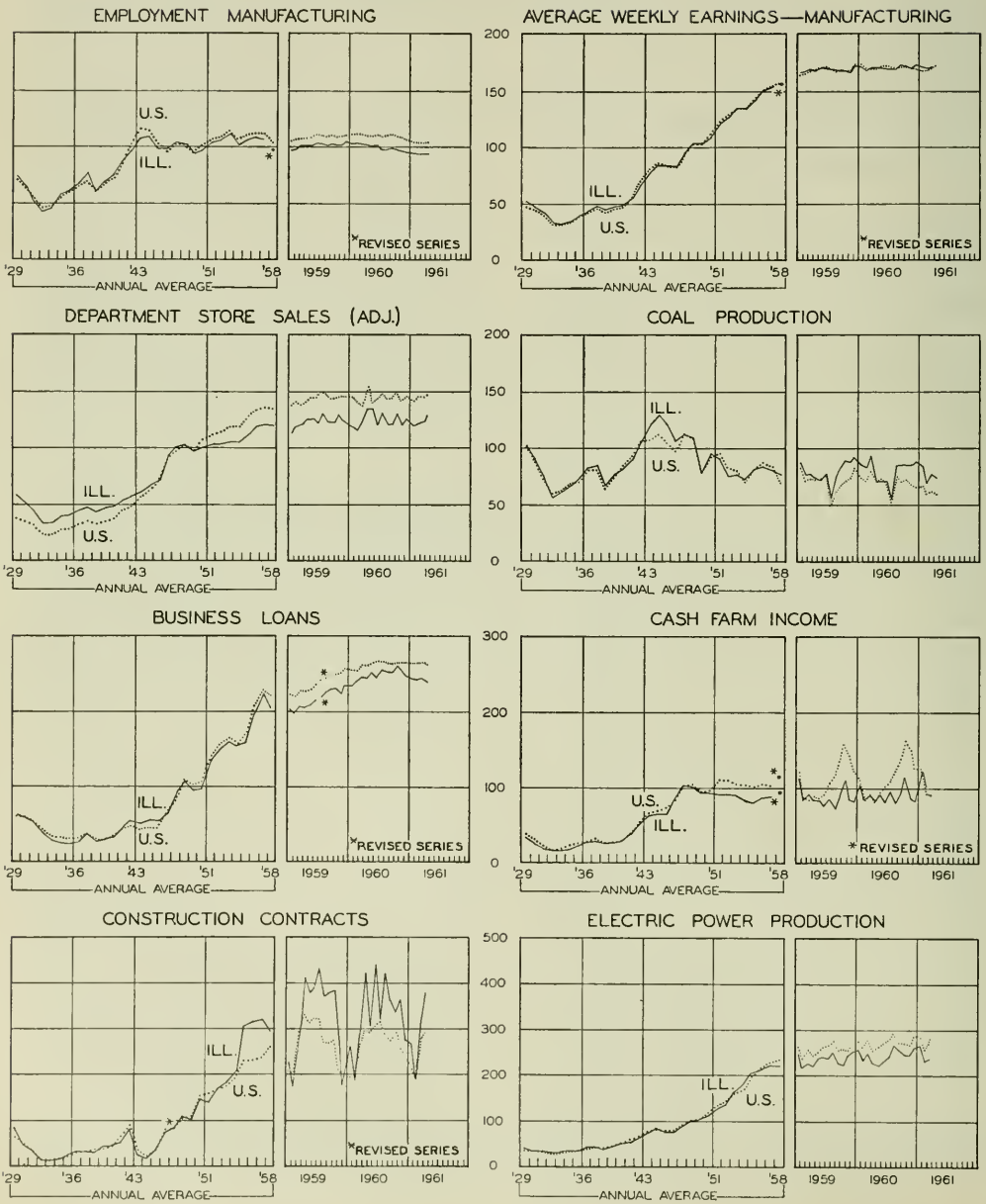
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$45,347[a]	1,218,402[a]	$534,787[a]		$19,290[a]	$17,383[a]
Percentage change from Mar., 1961	−14.0	−4.2	+11.8	−2	−9.8	−2.5
Percentage change from Apr., 1960	+18.4	+0.5	−3.8	−12	+8.2	−6.4
NORTHERN ILLINOIS						
Chicago	$32,479	886,382	$388,388		$17,892	$15,056
Percentage change from Mar., 1961	−17.3	−5.7	+12.1	−3	−9.8	−2.5
Percentage change from Apr., 1960	+17.5	−0.1	−5.5	−13	+9.1	−7.8
Aurora	$ 881	n.a.	$ 8,297		$ 75	$ 168
Percentage change from Mar., 1961	−60.3		+9.4	−3	−9.2	+7.0
Percentage change from Apr., 1960	−40.2		−11.1	−21	−5.0	−1.4
Elgin	$ 374	n.a.	$ 5,614		$ 50	$ 144
Percentage change from Mar., 1961	−35.1		+6.7	n.a.	−1.1	+12.5
Percentage change from Apr., 1960	−3.4		−6.9		−2.3	+23.3
Joliet	$ 483	n.a.	$11,085		$ 84	$ 116
Percentage change from Mar., 1961	+88.7		+31.3	0	−7.8	+0.0
Percentage change from Apr., 1960	−13.9		+3.5	−18	−5.2	+14.3
Kankakee	$ 643	n.a.	$ 4,933		n.a.	$ 68
Percentage change from Mar., 1961	+576.8		+15.4	n.a.		−20.3
Percentage change from Apr., 1960	+703.8		+7.9			−17.1
Rock Island-Moline	$ 1,165	29,434	$10,748		$ 121[b]	$ 181
Percentage change from Mar., 1961	+15.7	+0.7	+15.8	n.a.	+5.4	−2.2
Percentage change from Apr., 1960	−25.2	+6.7	+3.5		+5.1	−3.3
Rockford	$ 841	53,345[c]	$17,827		$ 196	$ 269
Percentage change from Mar., 1961	−64.6	−1.7	+11.6	+12[c]	−10.9	−1.4
Percentage change from Apr., 1960	−18.4	+2.1	−4.2	−15[c]	−4.9	−2.1
CENTRAL ILLINOIS						
Bloomington	$ 720	11,011	$ 5,605		$ 80	$ 139
Percentage change from Mar., 1961	+81.4	+0.6	+11.9	n.a.	−8.5	−6.7
Percentage change from Apr., 1960	−16.4	+1.3	+12.1		+11.2	+26.5
Champaign-Urbana	$ 468	15,388	$ 8,191		$ 81	$ 145
Percentage change from Mar., 1961	−81.0	−0.1	+10.2	n.a.	−6.7	+8.6
Percentage change from Apr., 1960	+22.8	+5.4	+7.3		−0.9	+14.9
Danville	$ 363	15,198	$ 5,996		$ 53	$ 83
Percentage change from Mar., 1961	+179.2	+7.5	+23.2	+10	+7.5	+24.4
Percentage change from Apr., 1960	−28.5	+7.3	−10.2	−12	+0.3	+10.5
Decatur	$ 547	34,547	$11,045		$ 113	$ 139
Percentage change from Mar., 1961	+229.5	−0.7	+18.3	0[c]	−10.5	+3.9
Percentage change from Apr., 1960	−31.9	−6.2	+0.9	−13[c]	−8.7	+0.1
Galesburg	$ 196	9,633	$ 4,354		n.a.	$ 46
Percentage change from Mar., 1961	−53.2	+1.1	+21.9	n.a.		+0.3
Percentage change from Apr., 1960	−51.5	+0.6	+5.6			−10.6
Peoria	$ 2,547	59,293[c]	$16,292		$ 203	$ 292
Percentage change from Mar., 1961	+88.7	+0.3	−18.5	−5	−11.7	−7.2
Percentage change from Apr., 1960	+355.6	−0.6	−2.8	−13	−8.1	−3.0
Quincy	$ 372	12,951	$ 5,255		$ 47	$ 76
Percentage change from Mar., 1961	+745.5	−0.2	+16.4	n.a.	−14.7	−2.1
Percentage change from Apr., 1960	+35.3	+12.6	+11.4		−3.3	+2.9
Springfield	$ 2,412	38,996[c]	$12,682		$ 129	$ 302
Percentage change from Mar., 1961	+167.4	−2.2	+15.1	−9[c]	−9.1	−14.1
Percentage change from Apr., 1960	+109.9	+6.4	+7.6	−19[c]	+3.6	+8.7
SOUTHERN ILLINOIS						
East St. Louis	$ 241	17,429	$ 8,709		$ 126	$ 73
Percentage change from Mar., 1961	−25.6	−1.2	+21.0	n.a.	−14.6	−2.9
Percentage change from Apr., 1960	−6.6	+5.0	+6.8		−6.0	−8.3
Alton	$ 514	22,901	$ 5,008		$ 40	$ 36
Percentage change from Mar., 1961	−6.5	−8.2	+20.9	n.a.	−14.8	−17.2
Percentage change from Apr., 1960	+108.1	+1.8	+2.1		−6.3	−9.8
Belleville	$ 101	11,891	$ 4,759		n.a.	$ 50
Percentage change from Mar., 1961	−41.3	+7.5	+22.5	n.a.		−3.8
Percentage change from Apr., 1960	−22.3	+2.0	+8.3			+12.0

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for March, 1961. Comparisons relate to February, 1961, and March, 1960. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending April 28, 1961, and April 29, 1960.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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BUREAU OF ECONOMIC AND BUSINESS RESEARCH
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HIGHLIGHTS OF BUSINESS IN JUNE

Business conditions continued to improve in June, although the gains came more slowly. Steel output fell week by week as the summer slack period was approached, and automobile production advanced only slightly over May. Electric power production was about the same as in May, as were lumber and petroleum outputs. The seasonally adjusted index of industrial production added 2 points, bringing it to 110 percent of the 1957 average.

Retail sales advanced another 1 percent to an adjusted rate of $18.3 billion. Deliveries by dealers of new automobiles averaged about the same as May and department store sales moved up 5 points to 149 percent of the 1947-49 average. Prices were generally stable to declining. Employment and unemployment both rose about in line with their seasonal patterns.

Construction Advances

The value of new construction put in place rose more than seasonally in June, the fourth consecutive month for which such a gain has been reported. The preliminary estimate places total expenditures at $5.1 billion, up 9 percent from May compared with a normal seasonal increase of 7 percent. June spending for new construction was 2 percent above the year-earlier month.

New private construction accounted for $3.5 billion of the total, a 7 percent rise over May and a gain of 1 percent in the seasonally adjusted annual rate. The increase in the latter was almost entirely due to gains in nonfarm residential construction, as it was in the three preceding months, but this category was still 3 percent below last year.

Public spending on new construction rose 12 percent over May to $1.7 billion. The normal seasonal increase between May and June is about 10 percent. An unadjusted 28 percent advance in highway expenditures accounted for most of the increase in the public sector.

In the first six months of 1961 total new construction amounted to $25.4 billion, compared with $25.1 billion in the same period of 1960. Private construction declined 3 percent, and public construction rose 11 percent.

Sales, Inventories Rise

Sales of manufacturing and trade firms advanced about 2 percent in May to $61.7 billion after allowance for seasonal influences. Half of the increase accrued to manufacturers, largely those producing durable goods as shipments of steel and motor vehicles each increased about 10 percent. New orders received by manufacturers were also up 2 percent, but unfilled orders were practically unchanged at $45.9 billion and have risen less than $1 billion from the January low.

Increased sales by automobile dealers largely accounted for a 1 percent gain in total retail sales, and a seasonally adjusted rise of about $100 million in retail automotive dealers' inventories was the source of a corresponding increase in the book value of total manufacturing and trade inventories. The stock-sales ratio for manufacturing and trade firms dropped slightly. At 1.5, it was about the same as a year ago, compared with 1.6 at the beginning of 1961.

Rise in Consumer Debt

Consumers were still reluctant in May to add greatly to their short- and intermediate-term debt. After allowance for seasonal factors, instalment obligations were increased $27 million, a decline of $50 million in outstanding automobile paper being offset by the addition of $59 million to the total of personal loans and smaller amounts to other consumer goods paper and to repair and modernization loans.

Noninstalment consumer debt rose an adjusted $54 million, mainly as the result of a $43 million expansion in charge accounts. Total consumer debt increased $81 million to $54.4 billion at the end of May, of which $42.1 billion was instalment debt and $12.3 billion was on a noninstalment basis.

New Housing Legislation

Lower minimum down payments on mortgages insured under the Federal Housing Administration's regular program and extension of the maximum maturity of these mortgages to 35 years from 30 years were two of the principal provisions of a new housing bill adopted at the end of June. The law also provides special FHA insurance for mortgages maturing in 40 years on low-cost homes, assistance to construction of low-rent apartments and home modernization, grants for slum clearance, loans for public housing, and token federal help for urban mass-transit systems.

However, the legislation is not expected to provide an immediate stimulus to home-building. It concentrates heavily on aid to low-income housing in cities, which requires more preparation than aid for single-family suburban homes.

THE SIGNIFICANCE OF SOVIET TRADE POLICIES · By Lynn Turgeon · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

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Second-class mail privileges authorized at Champaign, Illinois.

Too Much Optimism

This forecast article is a kind of parting shot — first, because the author will be away on leave for the next year and, second, because it is written as a challenge to overly optimistic views of the outlook.

Almost everybody is talking hopefully about 1962. Hardly ever has there been a more complete consensus. Hardly ever has it presented a weaker position analytically. For example, the two long articles published by one popular business magazine contain numerous assumptions, analogies, and assertions, but hardly a dozen sentences with any analytical significance for the future.

Reviewing the Recent Past

Much effort is being spent in explaining away the weakness of the 1960 recovery. The rationale of this is that the absence of the obstacles which held back business in 1960 will mean progress in 1962. Actually, this negative reasoning can establish nothing about the future; it is merely a way of avoiding the more obvious conclusion that the postwar boom has been running out of steam.

Three obstacles to progress in 1960 are cited: tight money, the reversal in the federal budget from deficit to surplus, and the steel strike. It is true that monetary tightness was carried to an extreme in late 1959. Although we may wish others had joined us in complaining about this policy at the time ("Figments of Inflation," October, 1959), it is at best an exaggeration to say that high interest rates were a major factor in the downturn. They affected the public purse more than any other segment of the economy.

It is also true that the advance was restrained by an extreme reversal in federal finances from deficit in early 1959 to surplus in mid-1960. This shows that the built-in, automatic stabilizers, including our progresssive tax system, work against recovery as well as against recession. Some who rejoiced in 1959 because these stabilizers had pulled us out of recession now complain because they did not carry to full employment. What should be understood is that these stabilizers do not initiate movements, they merely limit them.

Thirdly, the argument that the steel strike has inhibited growth is rather far-fetched. Its main effect was to push the economy up further than it could otherwise have gone — to two sharp, temporary peaks that could not be sustained. In doing so, it aroused unrealistic hope of progress beyond that justified by the underlying situation. Irregularity of this kind cannot be projected.

It is an ironic twist that those who do not view recent developments with full enthusiasm are being called "stagnationists." This diverts attention from the immediate issue; for the term stagnation has only long-term implications, and nobody questions progress over the longer term. The so-called "stagnationists" are moved to assert their confidence in growth. Both sides thus ignore the real danger, which is entirely consistent with longer-term growth, namely, a major cyclical contraction. Both accept the thesis that our government cannot afford and will never again permit a serious depression to occur. According to this dogma, the economy can only proceed to new highs or remain near those already established. The "optimists" generally accept this as incontrovertible, and the "stagnationists" are not in a position to deny it. Nevertheless, the fact is that the potency of government action for achieving this goal still remains to be tested.

Extent of the Current Recovery

Hope for achieving full prosperity rests primarily on private investment. The rebound from last winter's lows has been made rapid by temporary surges in government expenditures and business inventories. Housing has only partially recovered and business capital outlays have lagged. Recovery will not be complete unless these segments of private investment forge ahead to new highs.

The importance of temporary components in the current recovery is not generally understood. The following brief review attempts both to make this clear and also to appraise prospects for other important factors.

Government. The prime mover in the recovery has been the sharp upturn in federal spending. The new Administration began a campaign to accelerate expenditures immediately on taking office. The bulk of the $7 billion increase for fiscal 1962 is therefore being realized very quickly. Some two-thirds in terms of seasonally adjusted annual rates will be realized this summer. Thereafter, only moderate increases will occur under present programs. In other words, we are completing the third in a series of step-ups in government spending since 1954. Each time the advance has tended to flatten out after several quarters, and since new programs are not readily predictable, there is no reason for projecting indefinite increases at the recent rate.

State and local programs have also been subjected to an unusual acceleration and should tend to slow for that reason alone. Moreover, these government units have been incurring unprecedented deficits and are now planning either tax increases or restrictions on expenditures to bring their finances more nearly into balance. The tax increases will offset further expenditure increases, so that the combined economic effects for the next year or so are likely to be neutral at best.

Inventories. Business inventory policy reversed with the general improvement of sentiment accompanying the new government policies. The resulting $6 billion swing from liquidation to accumulation in one quarter is the biggest single factor in the current recovery. It is, however, strictly a very-short-term stimulus.

Those who are projecting the movement beyond the next few months are simply repeating the mistakes of 1959 and early 1960. Inventory movements are too erratic for such treatment, and there are no current de-

(Continued on page 8)

WATER—AN ESSENTIAL RESOURCE

Water is so common in everyday living that the average Illinoisan forgets that it is one of his most essential and abundant resources. Besides being a primary requisite for survival, water plays an influential role in many social and economic activities, ranging from recreational use to the generation of electric power for large areas of the State.

Illinois Water Resources

Illinois abounds in fresh water resources. With nearly 75 percent of its 1,240 miles of border on rivers and lakes, the State is nearly an island surrounded by fresh water. In addition, the interior of the State is webbed with a network of some 570 rivers and streams which provide necessary drainage and fresh water supplies to farms, cities, and industries.

Illinois water resources are fed each year by about 36,000 billion gallons of water falling on its surface in the forms of rain and snow. Of this enormous amount of water, which is equivalent to about two-fifths of the annual usage for all purposes in the entire nation, only about one-tenth is taken for municipal and industrial use, or about 13 billion gallons daily. About 9 billion gallons, or about 70 percent of the total amount of water used daily in the State, is utilized by electric generating plants. All other Illinois industries together pump a total of nearly 1.7 billion gallons daily and purchase about one-fourth of the 1.4 billion gallons supplied each day by the state's 1,370 public water systems. Most of the remainder is utilized by agriculture, principally for rapidly developing supplemental irrigation systems. Today, more than 16,500 acres of croplands are being irrigated by 340 water systems in 76 Illinois counties.

Sources of Water

Water is obtained in Illinois either from surface waters, such as lakes or rivers, or from the extensive but scattered groundwater formations (aquifers). Surface waters, including the approximately 900 lakes and reservoirs in the State, provide the major volume of fresh water. In terms of the number of public water systems, however, more than 80 percent of these systems obtain water from underground rather than surface sources. The same is true of industrial pumpage; 82 percent of the nearly 500 industrial establishments pumping water obtain about 15 percent of the daily volume of 1.7 billion gallons from groundwater sources.

The northern part of the State, excluding the Chicago area which receives large amounts of water from Lake Michigan, relies primarily on groundwater from deep rock wells for its needs. Southern Illinois, on the other hand, is served by numerous natural and artificial lakes because of the inaccessibility of water-bearing aquifers that are present but are too deep and too highly mineralized for utility. Finally, the central section of the State, especially in areas along major river beds, draws water chiefly from wells bored into water-bearing glacial strata, called drift wells, as well as from shallow rock wells.

Illinois Water Problems

Although its water supply is sufficient to support five to ten times the present industry, Illinois is faced with many problems concerning the conservation of both quantity and quality of this vital resource. Actually, there is no single state-wide water problem, but a variety of problems, such as soil erosion, overworked groundwaters, floods, and pollution, affecting various areas and users within the State.

Probably the most serious is soil erosion, particularly "sheet" erosion — the wearing away of thin layers of rich topsoil — which, contrary to popular belief, causes more damage than gully-type erosion. Not only is erosion harmful to the state's rich croplands, but the deposition of eroded sediment is annually reducing the holding capacities of lakes and reservoirs and the carrying capacities of rivers. As a consequence, these are becoming less navigable and are more likely to overflow during rainy seasons. Also, the increased sediment content can make fresh water undesirable for both industrial and municipal purposes and can destroy the propagation of aquatic animals as well. In all, the annual erosion damage from poor soil conservation practices in the State is estimated conservatively at $70 million.

The heavy postwar population and industrial growth in Illinois has aggravated supply problems, especially in a number of larger Illinois cities that draw heavily from underground wells. Although adequate underground aquifers are generally available in the northern two-thirds of the State, their water levels have been seriously lowered by the increased utilization of water in homes and industries in small but heavily populated areas. The development of additional surface reservoirs and the pumping of groundwater over a larger area have relieved the situation to some extent. However, the problem of receding water tables continues to exist and could critically impede future industrial development within the State.

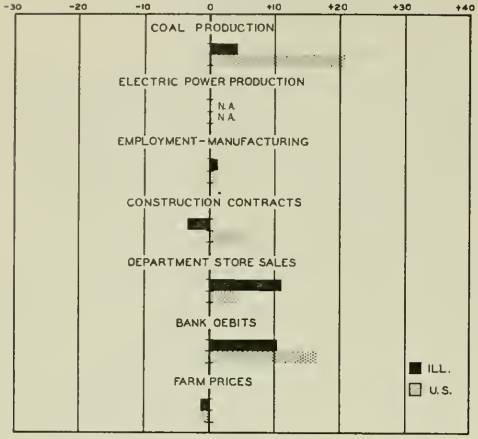
Pollution of surface and groundwater, a serious problem before World War II, has largely abated in recent years. Although the amount of wastes being handled by Illinois sewage systems has risen sharply, greater attention to the problem by local and state governments and the expansion of facilities for treatment of sewage and wastes have diminished pollution as a primary health problem and have increased the re-use potential of water resources throughout the State. An estimated 80 percent of the state's population now is served by sewage systems, and about 95 percent of municipal sewage is treated prior to discharge.

Fortunately, none of the water problems facing Illinois communities is without solution. The increasing accumulation of scientific data, improved techniques, and the ready availability of qualified state and federal specialists offer the possibility of supplying all future demands for water if adequate planning is undertaken and proper conservation practices are adopted.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS[a]

Percentage changes April, 1961, to May, 1961



[a] Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	May 1961 (1947-49 =100)	Percentage change from Apr. 1961	Percentage change from May 1960
Electric power[1]	n.a.		
Coal production[2]	77.0	+ 4.2	+ 7.8
Employment—manufacturing[3]	95.1	+ 1.2	- 5.0
Weekly earnings—manufacturing[3]	174.4[a]	+ 1.5	+ 3.3
Dept. store sales in Chicago[4]	121.0[b]	- 6.2	+ 2.5
Consumer prices in Chicago[5]	129.9	- 0.2	+ 0.2
Construction contracts[6]	366.5	- 3.4	+19.8
Bank debits[7]	243.6	+10.4	+13.9
Farm prices[8]	80.0	- 1.2	- 2.4
Life insurance sales (ordinary)[9]	333.9	+ 7.6	+ 4.0
Petroleum production[10]	120.2	+ 2.2	+ 0.6

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Data for April, 1961, compared with March, 1961, and April, 1960. [b] Seasonally adjusted. N.A. Not available.

UNITED STATES MONTHLY INDEXES

Item	May 1961	Percentage change from Apr. 1961	Percentage change from May 1960
	Annual rate in billion $		
Personal income[1]	413.7[a]	+ 0.6	+ 2.2
Manufacturing[1]			
Sales	368.4[a]	+ 2.0	+ 2.0
Inventories	53.4[a, b]	0.0	- 2.9
New construction activity[1]			
Private residential	22.2[c]	+10.3	- 2.0
Private nonresidential	17.3[c]	+ 6.6	+ 4.6
Total public	17.8[c]	+17.6	+ 7.1
Foreign trade[1]			
Merchandise exports	20.5[d]	-11.8	- 6.2
Merchandise imports	12.5[d]	-15.3	-17.4
Excess of exports	8.0[d]	- 5.7	+19.2
Consumer credit outstanding[2]			
Total credit	54.4[b]	+ 0.8	+ 3.0
Instalment credit	42.1[b]	+ 0.3	+ 3.4
Business loans[2]	36.0[b]	+ 0.3	- 0.6
Cash farm income[3]	25.6[d]	- 6.0	- 2.9
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	108[a, e]	+ 2.9	- 1.1
Durable manufactures	103[a, e]	+ 4.0	- 3.7
Nondurable manufactures	115[a, e]	+ 1.8	0.0
Minerals	97[a, e]	0.0	0.0
Manufacturing employment[4]			
Production workers	95	+ 1.7	- 5.5
Factory worker earnings[4]			
Average hours worked	99	+ 0.8	- 0.8
Average hourly earnings	176	+ 0.4	+ 2.2
Average weekly earnings	175	+ 1.2	+ 1.4
Construction contracts[5]	307	+ 6.2	+ 4.9
Department store sales[2]	144[a]	- 2.7	+ 1.4
Consumer price index[4]	127	- 0.1	+ 0.9
Wholesale prices[4]			
All commodities	119	- 0.3	- 0.6
Farm products	87	- 1.2	- 3.8
Foods	108	- 1.0	+ 0.6
Other	128	- 0.1	- 0.3
Farm prices[3]			
Received by farmers	87	- 1.1	- 2.2
Paid by farmers	121	0.0	+ 0.8
Parity ratio	78[f]	- 1.3	- 2.5

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp. [a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for April, 1961, compared with March, 1961, and April, 1960. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961 June 24	June 17	June 10	June 3	May 27	1960 June 25
Production:						
Bituminous coal (daily avg.)...thous. of short tons..	1,520	1,511	1,412	1,338	1,355	1,556
Electric power by utilities...mil. of kw-hr.	14,870	15,345	15,004	13,887	14,390	14,604
Motor vehicles (Wards)...number in thous.	151	156	153	103	154	167
Petroleum (daily avg.)...thous. bbl.	7,097	7,105	7,054	7,061	7,054	6,820
Steel...1947-49 =100	115	115	119	119	121	101
Freight carloadings...thous. of cars	600	602	593	531	579	642
Department store sales...1947-49 =100	127	159	151	132	137	124
Commodity prices, wholesale:						
All commodities...1947-49 =100	118.7	118.7	118.9	118.8	118.9	119.5[a]
Other than farm products and foods..1947-49 =100	127.7	127.7	127.8	127.7	127.8	128.2[a]
22 commodities...1947-49 =100	83.1	83.8	84.8	85.5	85.8	85.4
Finance:						
Business loans...mil. of dol.	31,705	31,519	31,161	31,460	31,586	31,814
Failures, industrial and commercial...number	307	351	349	254	368	296

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for June, 1960.

RECENT ECONOMIC CHANGES

Industrial Production

The Federal Reserve Board reported the nation's industrial output rose in May to the highest level in nine months. The seasonally adjusted index of factory, mine, and utility production in May reached 108 percent of the 1957 average, a sharp gain from the April index of 105 percent.

The production advance in May was spread through almost all industrial groups. The index for iron and steel output reached 89 percent, the highest in a year, while production of machinery and other types of equipment used by business rose for the second month. Output of consumer goods also increased in May, with autos, television and radio sets, and furniture leading the advance.

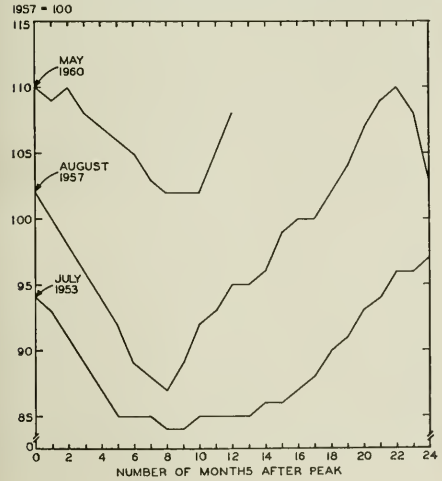
As a result of the May increase the FRB's production index had recovered two-thirds of its 8.2 percent decline in the 1960-61 recession and stood only 3 percentage points below the record high of January, 1960. This rate of recovery in industrial production is comparable with that of the deeper recession of 1957-58 (see chart) and much swifter than the upswing from the trough of the 1953-54 slump.

Auto Production

United States auto production in the first half of 1961 fell about 1.1 million cars, or 28.2 percent, short of last year's total of 3.8 million cars for the same period. With 2.7 million cars produced through the first six months, the auto industry moved into its annual model-changeover period in July. As plants close down for the changeover, production is expected to tail off in the third quarter until September, when production of the 1962 models swings into high gear.

All five major producers shared in the first-half decline in assemblies. The biggest relative reductions in output were experienced by Studebaker-Packard and Chrysler Corporation, each of which showed declines of more than 50 percent in car assemblies from a year ago. American Motors output was down 35 percent. The largest producer, General Motors, dropped from 2.1 million cars in the first six months of 1960 to 1.6 million in the same period this year, a decline of 24 percent. Ford was off about 200,000 units, or 20 percent, from the one million cars turned out a year ago.

INDUSTRIAL PRODUCTION
IN THREE RECESSIONS



Source: Federal Reserve Board.

Housing Starts

The pace of private home construction quickened in May, but still fell short of a year ago, according to the latest Census Bureau report. Construction starts on new private homes was at a seasonally adjusted annual rate of 1.3 million units in May. This was 8 percent above the April rate of 1.2 million units, but 3 percent below the rate in May last year. Part of the increase in the rate of starts was attributed to the greater number of working days in May than in April. The actual number of houses started in May totaled 124,000 units, up 11 percent from April.

For the first five months of 1961, housing starts ran at an average annual rate of slightly more than 1.2 million units. This was about 6 percent behind the average rate for the corresponding period last year.

Railroad Earnings

Earnings of the nation's Class I railroads were down sharply in May to $26 million, compared with $47 million in May, 1960, and $72 million two years ago. The latest report by the Association of American Railroads attributes most of the decline to a continuing low level of ore shipments. Although loadings of ore have shown some recent improvement, they were still running almost 30 percent below year-earlier levels in recent weeks.

Because of deficits in the early part of the year, the net income of Class I railroads for the first five months was estimated at only $17 million, down from $195 million in the same period last year, and $234 million in 1959.

Employment

Employment and unemployment both rose in June as the usual summer influx of students into the labor force made itself felt. The number of jobholders rose more than 1.9 million during the month to 68.7 million. Unusually large gains were reported in both nonfarm jobs and agricultural employment.

Unemployment increased by 812,000 in June to a total of 5.6 million as the increase in jobs was not enough to offset the impact of a 2.7 million increase in the civilian labor force. The seasonally adjusted rate of unemployment remained near the 7 percent mark in June.

Compared with a year ago, the gains in the labor force have amounted to 1.3 million persons. Almost all of this advance has been reflected in higher unemployment totals.

Labor Department data, in thousands of workers, are as follows:

	June 1961	*May 1961*	*June 1960*
Civilian labor force	74,286	71,546	73,002
Employment	68,706	66,778	68,579
Agricultural	6,671	5,544	6,856
Nonagricultural	62,035	61,234	61,722
Unemployment	5,580	4,768	4,423
Seasonally adjusted rate	6.8	6.9	5.4

THE SIGNIFICANCE OF SOVIET TRADE POLICIES

LYNN TURGEON, Assistant Professor of Economics
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In 1957 Premier Khrushchev declared war on us in the peaceful field of trade. The reaction of most Americans at the time was probably a sigh of relief. At least the Russians were not attacking us with intercontinental missiles. Nor were they retreating into some murky neo-Stalinism following their debacle in Hungary.

Spokesmen for our international banking and business community, however, took a somewhat less sanguine view of the Soviet leader's declaration. Since the Soviet foreign trade monopoly could disregard profit considerations in international transactions, it seemed to many that we were facing a prolonged period of cutthroat competition. The entry of the Russian troublemakers into world markets seemed designed to upset both the postwar stability and expansion of the free world's trade.

Roughly four years have passed since Khrushchev's momentous declaration. During this period, Soviet trade with the outside world has continued to expand at a much faster rate than trade among the Western countries. Although it is now common knowledge that the Soviet national product is expanding at a faster rate than is the case with Western economies, it is less commonly realized that Soviet foreign trade in the fifties was expanding at about twice the rate of her national product. On the other hand, foreign trade in the West seems to be growing at a slower rate than our total products.

Most of us remember clearly the most dramatic incursions of Soviet bloc exports into Western markets — the sales of aluminum, tin, and petroleum at prices which were 10 to 15 percent below prevailing levels. Soviet offers to supply inexpensive, serviceable capital equipment for the development of the economies of the United Arab Republic, Iraq, Cuba, Ghana, India, Indonesia, and so on, have also been well publicized. We have recently become concerned about the "soundness" of the dollar as the Russians placed a new value on their "heavy" gold-based ruble, in possible preparation for some sort of convertibility. And now we hear that Chester Bowles, our Under Secretary of State, fears and expects the Soviet Union to increase its economic warfare against the West by underselling us for political reasons.

Is it not only too obvious that the initial prognosis of the international banking and business community was correct? Must we also come to the same conclusion as Bowles, namely, that the Western nations will be forced to combine to counter such moves, even if this means national or even allied export controls? In my opinion, both questions should be answered in the negative.

Soviet Trade Policy with the West

First, let us consider Soviet exports of aluminum, tin, and petroleum to Western Europe. It is true that initial Soviet exports of aluminum and tin were priced at levels below those prevailing for these commodities in Western countries. The quantities involved were large enough to force Western aluminum producers to shade their prices slightly for a brief period and to break the price stabilization scheme of the International Tin Council. But the Russians have since given every indication that they will be only too happy to cooperate with any international marketing agreement designed to restrict exports in order to maintain aluminum and tin prices. As recently as last September, Premier Khrushchev indicated an eagerness to extend agreements of this type to other commodities.

The international oil cartel, which in view of recent Soviet successes in extracting petroleum has perhaps the most to fear from Russian exports, still seems reluctant to accept the Russians as a member of the club. So Soviet exports of oil are continuing at prices which are below Western levels by varying amounts. In contrast to the myopia of the oil cartel, the De Beers diamond monopoly has obtained a mutually beneficial agreement for the marketing of newly discovered Russian diamonds exclusively through the cartel at premium prices.

It seems that the Russians, like any competitor, are forced to shade prices in order to enter new markets, since no Western purchaser would be interested in Soviet products of uncertain quality and delivery at prevailing prices. But once Soviet products and deliveries have proven themselves, the Russians seem only too happy to behave like typical profit-seeking enterprises with monopoly power; that is, to restrict exports and maintain prices. In this way they earn as much foreign exchange as possible with a minimum of drain on their scarce resources.

By the same token, when the Russians go shopping in Western markets, they must be prepared initially to pay premium prices during periods of prosperity, since no producer is very anxious to sell to them if he can obtain similar prices for all of his output from Western buyers. As the abnormal postwar seller's market has been gradually replaced by a buyer's market in the West, the incentive to sell to the Russians, even at prevailing prices, has increased and will no doubt continue to do so.

On balance, since the Russians generally run an overall deficit in their trade with Western economies, a net increase in our total sales should result from increased trade with the Soviet Union. This net increase in our sales is reflected by an offsetting outflow of Russian gold. In the past few years this deficit has been averaging about $200 million yearly. Although Western credits to the U.S.S.R. reduced this amount by about one-half in 1960, in the first quarter of 1961 about $250 million of Soviet gold has been sold to West European central banks.

Some industries, such as the petroleum producers, are probably hurt by increased Soviet trade, but other industries stand to gain from additional sales by a still greater amount. Likewise, some countries such as Canada, which tends to be an exporter of a range of products similar to the Russians, may also feel to a greater extent the impact of the Soviet trade offensive, in comparison with countries producing noncompeting goods.

Soviet Assistance to Developing Areas

Next, let us examine Soviet offers to assist underdeveloped countries in satisfying their capital requirements. No doubt these exports are more politically than economically inspired. Soviet internal capital requirements are still virtually limitless so that any capital goods exported on credit — other than those temporarily in excess of current requirements due to imbalances — must be at the expense of domestic needs, including defense. This may explain why Soviet assistance has thus far been of rather limited magnitude. A few key countries — frequently located near the periphery of the Soviet

bloc — seem to have been the principal beneficiaries of this Soviet largess. Extensive credits have been established with much fanfare but only drawn upon slowly over a long period of time. As a result, the burden of foreign aid on the Soviet economy seems fairly minimal.

This is not meant to underestimate the fact that Soviet capital assistance to date seems on balance to have obtained considerable goodwill with a minimum cost. Since the Russians have not as yet demanded anything more than neutralism from the recipients — in contrast to our own insistent demands for allegiance — small wonder that nationalist-oriented countries are placing ever greater demands for capital on the Soviet bloc. Perhaps this greater reliance on Soviet capital assistance reduces somewhat the areas into which our capital can flow. But in view of the virtually unlimited capital requirements of the vast underdeveloped areas, there would still seem to be a healthy demand for as much capital as our economy can reasonably be expected to supply for many years to come. Furthermore, the greater the capital assistance provided by the Soviet economy, the longer time it will take the Russians to overtake us, either in over-all production per capita or, perhaps ultimately, in levels of living.

The most likely alternative to Soviet foreign aid outside their bloc might give greater reason for concern. If the Russians had continued their isolationist economic policy of the Stalinist era, they would no doubt be allocating more of their resources to their own internal development, possibly including defense. Apparently Soviet policy-makers have been willing to slow down their internal rate of growth — for both producers' and consumers' goods — in order to engage in a more internationalist economic policy. It is easy to see why Russian consumers, top military brass, or the Chinese Communists might object to this internationalist policy. But rationally, in view of the alternative, why should we?

It is also true that in their dealings with the underdeveloped areas, the Russians are frequently forced to pay higher prices for raw materials than those prevailing in Western markets. This probably means that we shall also have to pay somewhat more for our raw materials from these areas in the future. But Soviet purchases also help to keep the terms of trade from moving too radically against the developing areas. For some time, we have professed an interest in this worrisome problem that plagues producers of raw materials. In sincere concern for these countries, we can only welcome the price-stabilizing effects of the Russian buying.

The Prospect of Ruble Convertibility

Finally, we might consider the recent Russian devaluation of the ruble which some experts feel may be a step in the direction of convertibility. This "devaluation" was clearly different from the ordinary run of devaluations. We are used to devaluations resulting from the fact that a country has experienced a greater-than-average amount of domestic inflation, thus pricing itself out of the international market. In the Soviet case, since the Russians long ago insulated their internal economy against foreign competition via their foreign trade monopoly, they could and did set any nominal value on the ruble that suited their purposes. In actuality, the ruble has been grossly overvalued for most of the Soviet era, and the new official rate of exchange for the first time undoubtedly bears some rough relationship to its actual purchasing power.

Should the Russians go through with their plans for convertibility, it would seem to be beneficial to the West. It would mean that foreign exchange or credits earned by our exports to the U.S.S.R. would not have to be confined to the purchase of Soviet products, but instead could be used in any way the exporter saw fit, including conversion into some internationally acceptable medium such as gold. The Soviet Union has stockpiled a considerable hoard of gold, being wedded to the gold fetish, partly by their adherence to Marx's outmoded commodity theory of money. We too adhere to the gold fetish in our international transactions (although for different reasons), and — in view of our concern about the outflow of gold — we should be happy to take Soviet gold in exchange for exports. The only difficulty lies in the fact that the Russians are apparently high-cost producers of gold. But that is their problem, not ours.

The establishment of some sort of convertibility by the Russians would undoubtedly make for multilateralism in Soviet foreign trade, in contrast to the bilateralism which has characterized Soviet foreign transactions in the past. Already there is some evidence that the Russians have been willing to abandon bilateralism in their trade with certain key underdeveloped areas. It can be assumed that if bilateralism is interfering with their program of expanding trade and furthering coexistence, bilateralism will have to go. Since we place our faith in multilateral trade, we should welcome the fact that the Russians are coming around to our way of thinking.

Yugoslavia has already been convinced of the wisdom of joining the International Monetary Fund and other Western organizations designed to promote trade. It is just possible that the Russians may likewise modify their earlier antagonism toward these institutions.

Benefits from New Soviet Policy

To summarize, it seems entirely possible that the effects of the Soviet decision to pursue an internationalist economic policy have thus far been generally beneficial. Soviet exports of raw materials to Western Europe have been made at very reasonable prices. Our exports to the Soviet bloc have generally commanded premium prices. On balance more sales have been made than lost as a result of this trade. Although the United States has been lagging in development of this trade potential, our allies (particularly Great Britain, Italy, and Western Germany) have been expanding this profitable trade at a rapid pace. In 1960, Soviet trade with Great Britain rose by 17 percent, while trade with Italy and Western Germany increased by about 50 percent in each case. Diplomatic sources now estimate that Western trade credits to the Russians are approaching the billion-dollar level.

With respect to the underdeveloped areas, similar relative price patterns prevail: higher than world market prices for goods sold to the Russians and reasonable prices for functional Soviet capital goods. On balance more goods have left the Soviet Union than have returned from the developing areas, reflecting the fact that the Russians are generally lending to these areas.

To date the Russians seem to be paying the price that outcasts or those discriminated against are forced to pay in any community, including our own. They command lower prices for their own services and they pay higher prices for the goods and services of others. In time, however, if the Soviets continue their present business-like ways and become more respectable members of the international community, our initial advantages in trading with them may tend to disappear.

What accounts for the fact that the dire prophecies of our experts have not been and are not likely to be fulfilled? Briefly it is the almost universally held assumption that the economic forces and motivations behind Soviet foreign trade policy are similar to our own.

The Soviet economy — as well as all noncapitalist-oriented economies — are chronically, perhaps permanently, beset with difficulties associated with seller's markets similar to those prevailing in this country during and immediately after World War II. Most developed Western economies, and especially our own, are faced with problems arising from buyer's markets where the consumer is constantly courted by eager sellers. As a consequence, the principal goal of the Soviets in their foreign trade is to buy, while ours is to sell. We might say that the Russians are import-oriented or "inner-directed"; we are export-oriented or "outer-directed." In this respect, the two principal types of economies in the world are complementary rather than competing.

There is every reason to believe that future international economic competition will be considerably less with the Soviet Union than with Japan, Western Germany, Italy and Great Britain, all of whom may be expected to develop growing buyer's markets and pressure to export.

Too Much Optimism

(Continued from page 2)

ficiencies to justify a high rate of accumulation. Although gross national product is rising, much of the advance is in services. The flow of goods to which inventories relate has recovered less strongly, and in 1961 as a whole it will average lower than in 1960. Inventories will probably end the year higher in relation to the flow of goods than they were last year. Hence, the best rate of accumulation to be realized in the latter part of this year will probably be moderate; and whatever its amount, it is likely to be washed out of the picture in 1962. This means that the net effect of all the short-term factors now producing recovery will be lost by the end of the year.

Net Exports. A small partial offset to this year's over-all advance is expected from net exports. This item rose all through 1960, when imports were adversely affected by the recession and exports were inflated by the boom abroad and by several special influences on important commodities. Reversal of these trends will make this the only adverse factor in 1961. In view of our worsening competitive position in world markets, it is likely to continue adverse in 1962, though not strongly.

Housing. Residential construction has moved up from the low year-end rate and is back to the level of last summer. In comparison with earlier recoveries, this represents a sluggish response to increased availability of funds. The tendency after each spurt has been for the rate of starts to drift downward. In recent years building has been increasingly concentrated in the most volatile categories — apartment developments and speculative mass home-building. In the June, 1961, *American Economic Review,* J. M. Guttentag points out that we have not experienced a basic demand cycle since World War II. The special article by B. O. Campbell presented here in May explained why the down-phase of such a cycle may be in the making. With vacancies rising above 8 percent for rental units, the present volatile boom could collapse at any time. On the other hand, the new legislation may help sustain the situation. The Commerce Department's new estimate of 1,275,000 starts — which revises its earlier estimate of 1,300,000 only to the extent of units already lost — is about the best that can be expected. More likely building will slacken off after the current rise, with the downturn accelerating in 1962.

Plant and Equipment. Business investment is the main hope of the optimists. Recent surveys show increases in the second half of the year, and this expectation is being projected indefinitely. Although manufacturers' new orders for machinery have risen a little, they must be discounted for government purchases, and unfilled orders have not increased. Industrial construction contracts have shown recent weakness. The evidence for a 1962 boom is therefore largely imaginary.

Excess capacity is the main influence on the other side. Whether the situation is analyzed in over-all terms or industry by industry, it appears that excesses have grown almost steadily since 1953. These excesses are putting competitive pressure on prices in industries which already feel that increases are needed to bolster profits. Some have had to rescind increases, others have cut prices instead of putting them up — witness lumber, steel, aluminum, paper, semiconductors, and plastics. These are not the conditions to encourage new spending. Only if industrial production penetrates strongly into new high ground will the excesses be reduced enough to change this picture. The 1960 peak was 10 percent below the 1956-57 peak in constant dollars, and in all probability the current recovery will fall short of the 1960 peak.

Consumption. It is not enough to assume that consumers' expenditures will continue to rise whatever else happens. They depend on income and will continue to move with income. There is much talk about the current lag in retail sales and the upward trend in services. The two points are tied together, in that some of the most strongly rising service items — such as rents, finance charges, insurance, medical care, and utility costs — are in effect fixed charges against income and reduce the consumer's discretionary spending. Total spending is not showing any substantial lag behind income in the current recovery. No doubt consumption will contribute to the recovery this year, but if income then levels or declines, spending must be expected to go along.

No Boom In Sight

What all this adds up to is that there is no boom in sight. The recovery is currently having its best months and will probably peter out by the end of the year with gross national product near $525 billion. It is correct to say now that the only category likely to decline from the first to the fourth quarter is net exports. It is also correct to say that the only category which can be depended on to advance in 1962 is federal spending. The outcome will depend on private investment, but it looks as if the best hope for 1962 is stability.

The recovery is likely to be shorter and weaker than the last despite the absence of artificial restrictions from fiscal or monetary policy. The basic reason is that the boom has grown old and weary. Through these postwar years, stocks of real wealth — factories, houses, cars, inventories, equipment, and durable goods of all kinds — have been built up to extreme highs. The approach to market saturation puts a brake on new production. Idle labor also spells reduced demand. The unemployment problem is not likely to be solved this year or next.

Let it be clear that the pervasive optimism of the day is here disregarded as a basis for forecasting. Excessive optimism has always been symptomatic of booms just before the crash, and its very existence may be set down as a liability rather than an asset. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

State Government Revenue

The combined general revenue of the 50 state governments climbed to an all-time high of $27.4 billion in 1960, according to the latest figures published by the Census Bureau in its *Compendium of State Government Finances in 1960*. The total for last year represented a gain of 11.9 percent over the 1959 revenue figure of $24.4 billion. Almost every state shared in the advance with the biggest gains, over 25 percent, occurring in Alaska, New York, and Vermont. Only New Mexico and Oklahoma showed decreases.

The greatest source of state revenue continues to be general and selective sales and gross receipts taxes. This source brought in $10.5 billion in revenue last year and accounted for 58 percent of the total tax revenue of $18 billion. The largest relative advance during the year occurred in receipts from the 33 state individual income taxes, which rose 25.3 percent from $1.8 billion in 1959 to $2.2 billion in 1960.

Intergovernmental revenue from the federal government, the second largest component of general revenue for the states, increased 8.4 percent from 1959 to $6.4 billion. Most of these grants went for highways and public welfare programs. The balance of $3 billion in general revenue was accounted for by intergovernmental revenue from local governments and various charges and miscellaneous revenues.

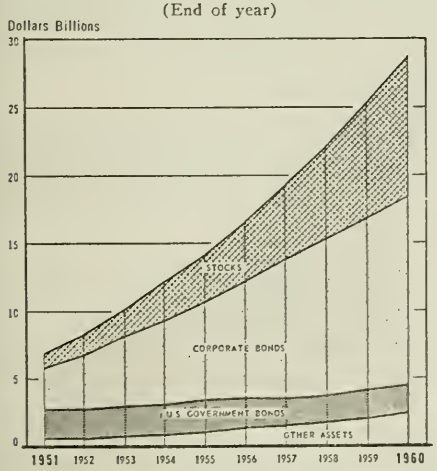
Distribution of Personal Income

The Commerce Department, in the May issue of the *Survey of Current Business*, reports that 55.9 million families and unattached individuals received $385 billion in personal income in 1960, up about $20 billion from the previous year. Thus, the mean income was raised to $6,900 last year from $6,600 in 1959. In real terms the gain was somewhat smaller but still amounted to 2.5 percent, substantially above the postwar average of 1.9 percent per year.

The article also indicates that less than 30 percent of all consumer units had personal incomes above $8,000 before taxes in 1960. This group accounted for about 55 percent of total personal income for the year. The 6 percent who earned $15,000 or more received 22 percent of the total. The following tabulation shows the percentage distribution of consumer units and income by family income levels for 1947 and 1960.

Personal income (before taxes)	*Consumer units (percent)*		*Percent of total personal income*	
	1947	*1960*	*1947*	*1960*
Under $2,000	25	13	7	2
$2,000-$3,999	38	20	28	9
$4,000-$5,999	20	22	24	16
$6,000-$7,999	9	17	14	18
$8,000-$9,999	3	11	7	14
$10,000-$14,999	3	11	8	19
$15,000 and over	2	6	12	22
Total	100	100	100	100

ASSETS OF CORPORATE PENSION FUNDS
(End of year)



Source: Securities and Exchange Commission, *Corporate Pension Funds, 1960*, p. 1.

Gains in Business Population

The business population in the United States increased to slightly over 4.7 million operating concerns at the beginning of 1961, a gain of about 60,000 over the previous year. The net advance resulted from the entry of 443,000 new businesses and the discontinuance of 386,000 existing concerns. The relatively small rise of 1 percent reflected the slowdown in economic activity in the second half of 1960.

The Commerce Department's Office of Business Economics reported that all major industry groups with the exception of manufacturing contributed to the over-all advance. The services and wholesale trade concerns registered the largest gains — 2.4 percent and 1.9 percent, respectively. The number of manufacturing concerns was reported virtually unchanged in the last few years.

Growth in Corporate Pension Funds

Assets of pension funds of corporations in the United States amounted to $28.7 billion by the end of 1960. During the year pension fund assets rose $3.4 billion, as compared with increases of $3.2 billion in 1959 and $2.8 billion in 1958.

The results of the last annual survey by the Securities and Exchange Commission indicate that the growth and investment of these funds in 1960 continued the trend of the last ten years (see chart). Corporate securities accounted for the largest part of pension fund investment, totaling $24.3 billion or 85 percent of all assets at the end of the year. Of these corporate securities, $14.1 billion were in bonds and $10.2 billion in common and preferred stock. Government bond holdings amounted to $2 billion or 7 percent, while mortgages, deposits, and other assets accounted for $2.4 billion.

A breakdown by industry groups shows manufacturing corporations accounted for 65 percent of all trusteed funds, with assets of $18.4 billion at the end of 1960, a gain of 2.3 percent over the year. Funds in nonmanufacturing industries showed an increase of $1.1 billion, with assets reaching $10.3 billion at year-end.

Why Industrial Development Efforts Fail

The Illinois State Chamber of Commerce recently released a study entitled *An Evaluation of Community Industrial Development Efforts of Illinois Communities.* This report includes the results of a survey conducted among industrial development agents of railroads, public utilities, and other businesses in the State. The survey was conducted for the guidance of local chambers of commerce in evaluating their efforts to stimulate industrial development in their respective communities.

The study reveals that a major weakness of industrial development programs of local community groups is their failure to recognize that a community development plan is necessary for effective and sound industrial development. Other important reasons why community industrial development programs have failed in the past are inadequate community zoning programs and lack of favorable community attitudes and organization. Also, desirable land is not readily available for industry, and even basic facts about community assets and facilities are often unavailable.

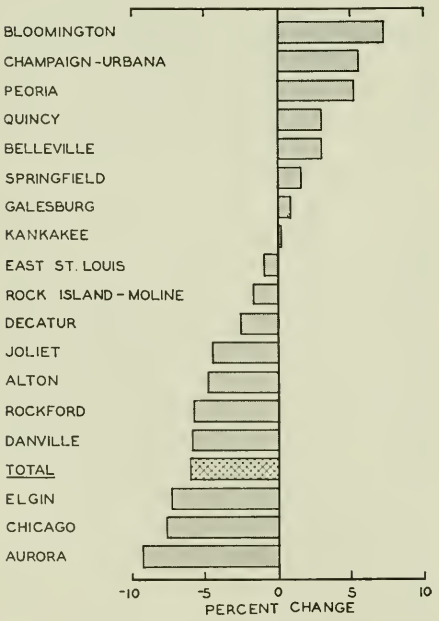
Livestock Sales Steady

According to data released by the Department of Agriculture, Illinois farmers received $927 million from the sale of livestock in 1960, compared with $931 million in 1959. In 1960 cash receipts from the sale of cattle and calves in the State amounted to $504 million, or over half of the state's total livestock receipts. There were only three states in the nation where farmers received higher incomes from the sale of cattle and calves — Iowa ($906 million), Texas ($591 million), and California ($515 million). Sales of cattle and calves throughout the United States amounted to $7.4 billion, down from $7.8 billion in 1959.

Cash receipts from the sale of hogs in the State were up 3 percent from the previous year and totaled $411 million. Iowa was the only state with higher cash returns from hog sales, $679 million. The United States total from hog sales amounted to $2.9 billion, up about $100 million from 1959.

Sales of sheep and lambs brought Illinois farmers $11 million in 1960, 6 percent less than in 1959. Illinois ranked thirteenth in the country in total cash receipts from the sale of sheep and lambs.

CHANGES IN ESTIMATED RETAIL SALES
1st Quarter, 1960, to 1st Quarter, 1961



Source: Illinois Department of Revenue.

Chicago's Improvement Program

The Department of City Planning in Chicago has prepared an outline of a capital improvement program requiring the expenditure of almost $1.1 billion for public facilities by the City of Chicago from 1961 through 1965. This year's report includes the proposed expenditures of the urban renewal agencies, totaling $330 million. The proposed outlays by other city departments, which amount to $756 million, represent an increase of 9 percent over the comparable figure of $692 million in the 1960-64 capital improvement program.

The plan calls for 30 percent of the total to be used for urban renewal projects and 27 percent to be spent on improvements of expressways, bridges, viaducts, and streets. The three Chicago airports are to receive $165 million, of which 86 percent will be used for further construction at the O'Hare-Chicago International Airport. Other projects in the plan include the construction and improvement of filtration plants, sewer plants, and several public buildings.

In addition to the city projects, the capital improvement program also lists projects which are scheduled by other government agencies operating in Chicago. These agencies plan capital expenditures during the 1961-65 period amounting to $1 billion, which brings the total capital expenditure program to $2.1 billion. About 1,200 construction projects throughout the city are planned.

Retail Sales Down

Total retail sales for 18 major trading centers in Illinois during the first three months of 1961 amounted to an estimated $1.5 billion, a drop of nearly $100 million or 6 percent from the corresponding period of 1960. In March, 1961, estimated retail sales, having increased 12 percent from the previous month, were only 4 percent below March of a year ago.

In comparison with the first quarter of 1960, 10 of the 18 cities experienced declines in retail sales in the first quarter of 1961. As is shown in the accompanying chart, the cities that had decreases during the period were predominantly industrial centers, which were hardest hit by the recent recession. The low level of steel production undoubtedly was a major factor in the fall in sales in the steel center of Chicago and surrounding cities. The largest declines were in Aurora, Chicago, and Elgin. Most of the cities which showed gains during the period were located in the central region of the State. Increases were greatest in Bloomington, Champaign-Urbana, and Peoria.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

May, 1961

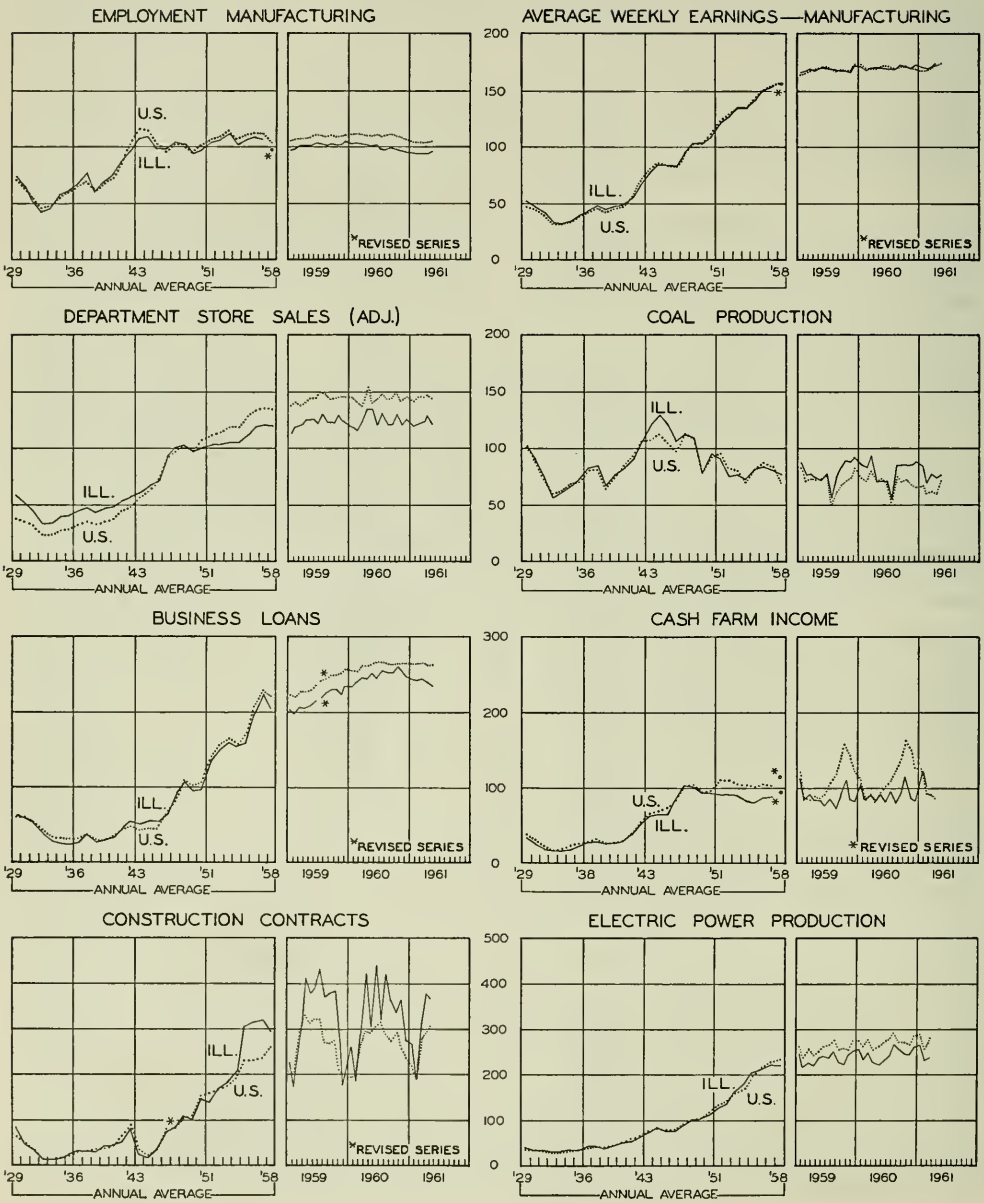
	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$75,308[a]	1,191,406[a]	$519,537[a]		$21,296[a]	$16,714[a]
Percentage change from Apr., 1961	+69.9	−2.2	−2.9	+11	+10.4	−3.8
Percentage change from May, 1960	+101.8	+3.6	−8.9	+8	+13.9	+1.0
NORTHERN ILLINOIS						
Chicago	$60,007	866,624	$373,091		$19,776	$14,386
Percentage change from Apr., 1961	+84.8	−2.2	−3.9	+14	+10.5	−4.4
Percentage change from May, 1960	−22.4	+3.2	−8.9	+7	+14.8	+0.5
Aurora	$ 881	n.a.	$ 7,917		$ 81	$ 182
Percentage change from Apr., 1961	+17.9		−4.6	+11	+7.2	+8.2
Percentage change from May, 1960	+80.9		−16.8	+8	−2.8	+3.0
Elgin	$ 435	n.a.	$ 5,664		$ 52	$ 132
Percentage change from Apr., 1961	+16.3		+0.9	n.a.	+4.9	−8.4
Percentage change from May, 1960	−45.8		−12.2		+4.3	+4 5
Joliet	$ 4,680	n.a.	$ 9,704		$ 91	$ 109
Percentage change from Apr., 1961	+868.9		−12.5	+15	+8.6	−6.3
Percentage change from May, 1960	+1,100.0		−17.5	+6	+2.6	+2.0
Kankakee	n.a.	n.a.	$ 4,861		n.a.	$ 72
Percentage change from Apr., 1961			−1.4	n.a.		+4.6
Percentage change from May, 1960			−10.0			+15.1
Rock Island-Moline	$ 932	26,395	$10,565		$ 127[b]	$ 186
Percentage change from Apr., 1961	−20.0	−10.3	−1.7	n.a.	+5.1	+2.9
Percentage change from May, 1960	−21.9	+1.8	−9.5		+5.8	+4.2
Rockford	$ 1,570	52,313[c]	$20,407		$ 208	$ 244
Percentage change from Apr., 1961	+86.7	−1.9	+14.5	+9[c]	+6.4	−9.3
Percentage change from May, 1960	+939.7	+5.4	+4.6	+7[c]	+4.8	−2.5
CENTRAL ILLINOIS						
Bloomington	$ 525	11,079	$ 5,782		$ 85	$ 139
Percentage change from Apr., 1961	−27.1	+0.6	+3.2	n.a.	+6.8	+0.1
Percentage change from May, 1960	−15.2	+3.2	+1.4		+18.0	+18.9
Champaign-Urbana	$ 273	14,540	$ 8,252		$ 85	$ 145
Percentage change from Apr., 1961	−41.7	−5.5	+0.8	n.a.	+5.2	+0.2
Percentage change from May, 1960	−18.0	+3.5	−2.2		+0.3	+11.9
Danville	$ 227	14,207	$ 5,830		$ 49	$ 70
Percentage change from Apr., 1961	−37.5	−6.5	−2.8	+1[c]	−6.5	−15.7
Percentage change from May, 1960	−92.2	+5.4	−9.8	+9[c]	−4.3	+1.5
Decatur	$ 644	34,687	$12,078		$ 116	$ 144
Percentage change from Apr., 1961	+17.7	+0.4	+9.4	+10	+3.2	+3.7
Percentage change from May, 1960	−31.3	+3.1	+3.8	+9	−4.4	+4.7
Galesburg	$ 142	9,124	$ 4,030		n.a.	$ 49
Percentage change from Apr., 1961	−27.6	−5.3	−7.4	n.a.		+7.1
Percentage change from May, 1960	−0.7	+1.1	−15.8			+1.2
Peoria	$ 1,723	59,240[c]	$16,547		$ 237	$ 314
Percentage change from Apr., 1961	−32.4	−0.1	+1.6	+11	+16.7	+7.3
Percentage change from May, 1960	+970.2	+0.2	−8.2	+9	+4.4	+5.5
Quincy	$ 266	12,073	$ 4,998		$ 56	$ 71
Percentage change from Apr., 1961	−28.5	−6.8	−4.9	n.a.	+21.0	−6.4
Percentage change from May, 1960	−57.6	+19.5	−3.7		+5.4	−9.9
Springfield	$ 2,102	39,630[c]	$12,619		$ 136	$ 310
Percentage change from Apr., 1961	−13.9	+1.6	−0.5	+7[c]	+5.1	+2.5
Percentage change from May, 1960	+83.6	+12.4	−28.9	+8[c]	+3.3	+8.3
SOUTHERN ILLINOIS						
East St. Louis	n.a.	16,797	$ 7,944		$ 145	$ 74
Percentage change from Apr., 1961		−3.6	−8.8	n.a.	+14.9	+2.2
Percentage change from May, 1960		+5.1	−10.3		+0.1	−4.5
Alton	$ 746	24,182	$ 4,721		$ 51	$ 39
Percentage change from Apr., 1961	+45.1	+5.6	−5.7	n.a.	+25.5	+6.6
Percentage change from May, 1960	+161.8	+11.5	−8.4		+8.1	−2.7
Belleville	$ 155	10,514	$ 4,527		n.a.	$ 50
Percentage change from Apr., 1961	+53.5	−11.6	−4.9	n.a.		−0.1
Percentage change from May, 1960	−0.6	−2.9	−5.4			−4.8

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for April, 1961. Comparisons relate to March, 1961, and April, 1960. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending May 26, 1961, and May 27, 1960.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN AUGUST

Expanding economic activity carried the index of industrial production to 113 percent of the 1957 average in August, after allowance for seasonal factors. The index in July had already exceeded by 1 point the previous high of 111 established in January, 1960. Continuing advances in steel production and related lines of output helped to push up the total. Employment rose slightly, but the seasonally adjusted rate of unemployment held close to the 7 percent level that has prevailed for many months.

The large increases in military spending projected by the Administration have no doubt contributed to current business optimism, particularly as reflected in the stock market, where prices reached record highs.

Construction Continues Advance

The value of new construction put in place registered a more than seasonal gain in August, as it had in each of the preceding five months. Total expenditures amounted to $5.4 billion, 1 percent above July and 4 percent above August, 1960. New private construction totaled $3.7 billion, about the same as in July. Most of this was nonfarm residential construction, which was down less than seasonally to $2.1 billion.

Public spending on new construction rose about 4 percent from July to $1.7 billion. This was slightly more than the normal increase for August. Greater highway expenditures accounted for most of the gain. Spending on military facilities declined about 3 percent in August, when it normally rises.

In the first eight months of 1961 total new construction was up 3 percent from the comparable period in 1960.

Inventories Up, Sales Down

The book value of manufacturing and trade inventories rose $300 million in July to $91.8 billion, after seasonal adjustment. This represents the largest of four consecutive monthly increases; since March the total has advanced $800 million, of which $500 million was in trade inventories. Increases of $200 million in the stocks of durables manufacturers and $100 million in retail inventories, mostly durables, accounted for the July advance. Stocks of wholesalers were unchanged.

Total sales of manufacturing and trade firms fell back to the May level of $61.6 billion in July. This was down $300 million from June, the year's high. The July drop reflected decreases in wholesale and retail sales that more than offset a $200 million increase in manufacturers' sales. Primary metals producers showed the largest advance — 6 percent, after seasonal adjustment.

New orders received by manufacturers, at $31.2 billion, were up slightly from June and $1 billion above July, 1960. Aircraft, electronics, and primary metal producers experienced substantial increases that were partly offset by declines in other industries.

Rail Subsidy Proposed

The Interstate Commerce Commission has suggested to Congress that the federal government subsidize railroad passenger service. The proposal was directed primarily at the problems of the New York, New Haven and Hartford Railroad, which has been forced into financial reorganization, but would be applicable to others. Subsidies would be extended on the basis of expenditures made by a railroad on the maintenance of its way and structures that are directly assignable to passenger service.

The justification for the proposed subsidy program, in addition to the need for continuing passenger service, particularly on commuter lines, is posed in terms of the competitive advantage that other modes of transportation have obtained as a result of direct and indirect subsidies in the form of government financing of highways, airways, and waterways. Thus, the federal government would assume an obligation to pay part of the cost of maintaining rail right-of-ways. The commission estimated that this would not exceed $52 million annually even if all roads applied and qualified for aid.

Little Change in Consumer Debt

With allowance for seasonal factors, consumers reduced their outstanding instalment debt $74 million in July after increasing it $100 million in June. This left the total instalment debt at the end of July at $42.5 billion, about $400 million above the year-earlier figure. A decline of $102 million in outstanding automobile paper, the eighth drop in a row in the adjusted series, accounted for the July reduction. Small increases in other consumer goods paper and in personal loans were reported.

Noninstalment debt of consumers rose a seasonally adjusted $119 million in July, somewhat more than in June. Most of the July advance was in single-payment loans. Total short- and intermediate-term consumer debt at the end of July amounted to $54.7 billion, up nearly $900 million from the year-earlier total.

THE ADEQUACY OF RAW MATERIALS · · By Herbert Schiller · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

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Making Less and Saving More

Americans are getting rich. They are getting so rich that they can afford to ignore some of the basic economic principles of the past.

At least one of these phenomena has gone largely unnoticed so far, even though its effects seem to be becoming more pronounced. This is the growing tendency for people to save more when business goes down and save less when business goes up.

In the recession just ended, a larger proportion of people's disposable personal income — that is, personal income after deduction of personal tax and nontax payments (fines, penalties, and so on) — was saved while business conditions were deteriorating than in previous upswings of the cycle. Thus, at the bottom of this last recession, in the first quarter of this year, saving averaged 6.7 percent of disposable income; and in the two previous quarters, while business was turning down, saving averaged 6.4 percent and 6.9 percent of disposable income. In contrast, in the prior (1959-60) upswing, saving never amounted to more than 6.5 percent of disposable income; and in the period when the sharpest rise took place, in the first quarter of 1960, people saved only 6.3 percent of their disposable income.

Admittedly, these differences are small. Yet, the pattern is clear and the nature of the differences is truly remarkable.

Furthermore, a somewhat similar pattern began to be evident in the previous recession, in 1957-58. At the peak of the cycle, the saving rate had declined from the prior upswing but in the ensuing downturn the saving rate hardly fell at all.

Much the same phenomenon is evident when the saving rate is compared with recent cyclical swings in aggregate personal incomes. Fluctuations in personal income have been much smaller than those in the indexes of over-all business conditions, thanks in part to the presence of built-in stabilizers, but this inverse relationship between the saving rate and the aggregate still appears.

Fat and Fear

How does this come about? Three factors seem to be primarily responsible. First, when business gets worse, incomes generally are reduced, but, at least in the past few years, not to the extent to which business has suffered. Indeed, wage and salary income in the postwar years has increased more and has held up better in downswings than almost any other form of income.

Second, it is clear that despite the extent to which incomes have been maintained in recent recessions, people have little confidence that this happy state of affairs will continue. When business goes down, people begin to get worried. They fear that the downturn will continue long enough, and go deep enough, that their incomes might be reduced or eliminated. To counter this fear, they begin to consider means of coping with such an eventuality, and what is more natural in such a case than to reduce expenditures so that more money can be laid aside just in case?

This additional saving is facilitated by the third factor, namely, by the presence of what seems to be a considerable amount of "fat" in people's spending patterns during peak business conditions. This "fat" — known in more technical terms as "discretionary purchasing power" — is clearly made possible by the current very high standard of living. Because of this high standard of living, an increasing proportion of expenditures tends to be not for subsistence purposes but rather for purposes of adding extras and improving still further one's living pattern. Since such expenditures are primarily transitory in nature, they can be reduced relatively easily and the money set aside with little impact on current living patterns. This is particularly true of durable goods purchases which, to judge by the experience of the past two recessions, have been especially hard hit.

Rationality or Perversity

To be sure, in a lengthy recession or depression, it may not be possible for people to reduce expenditures rapidly enough to maintain saving. However, in the foreseeable future, recessions of this magnitude do not appear probable, and it is therefore of interest to consider probable effects of the rising rate of saving in recession.

There would seem to be three principal effects, relating to over-all economic activity, to financial institutions and sellers of consumer goods, and to consumers themselves.

From the point of view of the over-all economy, this phenomenon serves to remove one of the automatic stabilizers that in the past has acted to maintain purchasing power when it was badly needed. On downswings in the past, the effects of the reduced purchasing power of consumers were mitigated to some extent by the increased proportion of the remaining incomes spent for goods and services. Now this stabilizing mechanism tends to act in reverse, serving to increase spending more when it is needed least by the economy, and to reduce spending when it is needed most, namely, in cyclical downswings.

Actually, this stabilizer was never very potent in past recessions, particularly because the reduced spending brought about by a drop in aggregate income more than offset the higher rate of spending at the lower levels of income. However, in a relatively slight recession, reduced spending at somewhat lower levels of income brought about by a desire to maintain saving could assume much more importance and help intensify the resulting downswing.

Second, this phenomenon poses somewhat of a marketing dilemma for financial institutions. For them, consumer funds are likely to become more plentiful when business turns down. Since virtually all of these institu-

(Continued on page 8)

SOAP—AN INDISPENSABLE PRODUCT

Soap is one of modern man's most indispensable products. Without it, the high level of health in today's progressive societies would soon decline. In fact, the quantity of soap consumed by a nation offers a rough but plausible index of its wealth and civilization.

The United States currently produces and consumes more soap than any other country. Nearly 4.4 billion pounds of soap and synthetic detergents, valued at about $1.2 billion, were sold during 1960, a record year.

Soap serves many uses. In addition to its primary utilization in personal hygiene and countless household tasks, it is vital to many other industries. Among other things, it is a lubricant for hundreds of manufacturing processes, such as the making of telephone wires; it is a rust preventive in antifreeze solutions; it is an emulsifier in the processing of synthetic rubber; and it is a glossing agent in the manufacture of slick papers. Moreover, the soap industry's most important by-product — glycerin — is used in the manufacture of a wide variety of other products, ranging from cellophane to cosmetics.

Illinois — Soapmaking Stronghold

Soap was produced commercially in Illinois as early as the 1820's, but the industry, both in the State and nationally, did not burgeon until after the Civil War. Prior to this and for many years thereafter, soap was made in the home. Its development here was linked to the cleansing needs of the state's mushrooming population, the then-emerging techniques of mass production of soap, and perhaps most important, the development of Chicago as the nation's packing center. The swelling surpluses of tallows and greases from the city's stockyards attracted soapmakers and encouraged major packing houses to enter the business.

As a result of the early concentration of raw materials and subsequent development of a skilled labor pool in Chicago, the industry in the State today is still centered predominantly in the Chicago area. This area is one of the nation's three most important soap-producing centers today. More than nine-tenths of the state's 60 plants are situated within a 30-mile radius of Chicago. They produce an estimated 95 percent of the total Illinois soap and detergent volume.

Altogether, shipments from Illinois plants in 1958, according to the latest Census of Manufactures, were valued at $156 million, the fourth largest total among the 39 soap-producing states. During the same year, more than 3,100 of the 30,000 workers in the nation's 608 soapmaking establishments were employed in Illinois.

How Soap Is Made

Soap production, until about a century ago, was accomplished by a variety of methods, most of which were erratic and expensive, and yielded limited quantities. Many were jealously guarded secrets passed down from craftsmen to apprentices. Because commercial supplies were scarce, the major proportion of soap was made by housewives who used traditional household methods. Usually each spring, a year's accumulation of household fats and greases was boiled with wood ashes (potash alkali) over an open fire. The alkali reacting with the greases produced a thick, gravy-like curd, which, when cooled, gave the housewife a harsh, smelly soap.

The scientifically controlled, large-scale process that turns out the nation's current soap requirements is based on essentially the same principle employed by the pioneer housewife, that is, fatty acids are combined with an alkali. Soap factories today utilize one of two methods: the "kettle" method or the "continuous flow" method. In the former, melted fats and oils, together with a solution of alkali, are boiled in large vats containing up to 200 tons of raw materials. After salt is added, soap curds form and float to the surface, while heavier materials, such as glycerin and alkalies, settle to the bottom.

The newer and faster "continuous process" impels raw materials through stainless steel tubes that often rise 80 feet high. The fatty acids are injected into the tube, then rise through a scalding hot water bath. Moving upward, fats are split by chemical action into component parts that are mixed with caustic acids to form the soap curds. As with the "kettle" method, other ingredients, such as coloring or perfume, are then mixed with the melted soap, which is finally shaped into the end product.

By contrast, synthetic detergents, which are not really soaps, are produced by many complex chemical processes quite unrelated to that of soapmaking. The raw materials of synthetics are derived mostly from petroleum and coal tar products, as well as from hydrogenated fatty acids. Synthetics are given further soaplike qualities through the addition of various special ingredients, such as wetting, dispersing, emulsifying, and penetrating agents, depending upon the special use the end product will serve.

Industry Trends

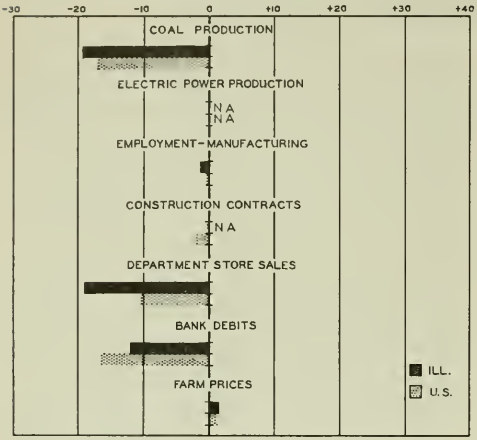
The remarkable growth of synthetics has been the highlight of the industry during the postwar period. Stimulated by the shortage of fats and oils during World War II, synthetics, which actually were discovered during the 1930's, climbed from less than 5 percent of total pound volume in 1945 to 75 percent last year. This growth resulted mainly from the diversity of uses to which synthetics could be put in the household, for which 85 percent of all soaps and detergents are bought.

Although total soap and detergent consumption has increased mainly as a result of population growth, per capita consumption has gradually risen from 21 pounds in 1909 to 28 pounds in 1960. Largely accounting for this increase is the greater consumption stemming from changing living habits, such as the increasing use of automatic washing machines and dishwashers, as well as the growing preference for washable-type clothing and fabrics. Annual per capita consumption of personal toilet bar soaps remained constant at about three to four pounds during the same period.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS[a]

Percentage changes June, 1961, to July, 1961



[a] Not seasonally adjusted. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	July 1961 (1947-49 = 100)	Percentage change from June 1961	Percentage change from July 1960
Electric power[1]	256.9	+ 3.1	+ 7.3
Coal production[2]	58.7	−19.3	+ 5.5
Employment—manufacturing[3]	95.3	− 1.2	− 3.2
Weekly earnings—manufacturing[3]	178.8[a]	+ 1.9	+ 2.5
Dept. store sales in Chicago[4]	137.0[b]	+ 7.9	+ 4.6
Consumer prices in Chicago[5]	130.9	+ 0.9	+ 0.4
Construction contracts[6]	n.a.		
Bank debits[7]	220.5	−11.8	+ 7.2
Farm prices[8]	80.0	+ 1.3	− 1.2
Life insurance sales (ordinary)[9]	305.0	− 3.4	+ 7.0
Petroleum production[10]	119.7	+ 1.5	+ 0.7

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.
[a] Data for June, 1961, compared with May, 1961, and June, 1960. [b] Seasonally adjusted. N.A. Not available.

UNITED STATES MONTHLY INDEXES

Item	July 1961	Percentage change from June 1961	Percentage change from July 1960
	Annual rate in billion $		
Personal income[1]	421.8[a]	+ 1.1	+ 4.2
Manufacturing[1]			
Sales	373.2[a]	+ 0.6	+ 2.3
Inventories	53.6[a,b]	+ 0.4	+ 2.4
New construction activity[1]			
Private residential	25.5[c]	− 2.7	+ 1.4
Private nonresidential	19.3[c]	+ 3.7	+ 7.8
Total public	20.4[c]	+ 4.4	+ 7.6
Foreign trade[1]			
Merchandise exports	20.4[d]	− 2.6	− 2.2
Merchandise imports	14.6[d]	+ 2.2	− 6.6
Excess of exports	5.7[d]	−12.9	+11.2
Consumer credit outstanding[2]			
Total credit	54.7[b]	− 0.2	+ 1.9
Instalment credit	42.4[b]	0.0	+ 1.8
Business loans[2]	35.6[b]	− 1.8	− 3.1
Cash farm income[3]	29.4[d]	+ 9.4	− 1.7
	Indexes (1947-49 = 100)		
Industrial production[2]			
Combined index	112[a,e]	+ 1.8	+ 1.8
Durable manufactures	108[a,e]	+ 2.9	+ 1.9
Nondurable manufactures	119[a,e]	+ 0.8	+ 2.6
Minerals	99[a,e]	+ 1.0	+ 2.1
Manufacturing employment[4]			
Production workers	97	+ 0.5	− 2.6
Factory worker earnings[4]			
Average hours worked	100	− 0.2	+ 0.5
Average hourly earnings	177	0.0	+ 2.6
Average weekly earnings	177	− 0.3	+ 3.1
Construction contracts[5]	310	− 2.0	− 1.9
Department store sales[2]	151[a]	+ 1.3	+ 2.0
Consumer price index[4]	128	+ 0.4	+ 1.2
Wholesale prices[4]			
All commodities	119	+ 0.3	− 0.9
Farm products	87	+ 1.8	− 2.6
Foods	108	+ 0.7	− 2.3
Other	127	0.0	− 0.6
Farm prices[3]			
Received by farmers	87	+ 1.2	0.0
Paid by farmers	120	0.0	+ 0.8
Parity ratio	79[f]	+ 1.3	0.0

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for June, 1961, compared with May, 1961, and June, 1960. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961					1960
	Aug. 26	Aug. 19	Aug. 12	Aug. 5	July 29	Aug. 27
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,341	1,375	1,370	1,321	1,368	1,307
Electric power by utilities...mil. of kw-hr.	15,491	15,665	16,080	16,137	16,061	15,018
Motor vehicles (Wards)...number in thous.	83	30	28	46	98	54
Petroleum (daily avg.)...thous. bbl.	7,054	7,073	7,045	7,024	6,945	6,846
Steel...1947-49 = 100	117	113	111	107	106	90
Freight carloadings...thous. of cars	592	595	591	589	591	595
Department store sales...1947-49 = 100	152	142	131	132	125	144
Commodity prices, wholesale:						
All commodities...1947-49 = 100	118.9	119.0	118.8	118.7	118.6	119.2[a]
Other than farm products and foods...1947-49 = 100	127.4	127.4	127.5	127.7	127.5	128.2[a]
22 commodities...1947-49 = 100	85.0	85.3	84.8	84.7	84.6	85.6
Finance:						
Business loans...mil. of dol.	31,498	31,592	31,359	31,499	31,320	31,107
Failures, industrial and commercial...number	352	366	343	406	319	315

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for August, 1960.

RECENT ECONOMIC CHANGES

Foreign Investments

The flow of United States private capital to foreign countries increased sharply last year to $3.9 billion, up from $2.4 billion in 1959. In addition, reinvestment of some earnings and appreciation of foreign security shares combined with the capital outflow to raise the value of private holdings abroad by almost $5.5 billion, to a total of $50.3 billion at the end of 1960.

New direct investments by United States companies in their foreign branches and subsidiaries totaled $2.9 billion in 1960, compared with $2.4 billion in the preceding year (see chart). Last year's addition to direct investment, composed of $1.2 billion in retained earnings and $1.7 billion in net capital outflow, raised the book value of direct foreign investments to $32.7 billion.

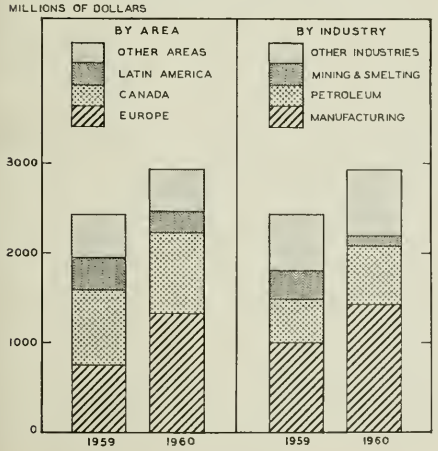
Most of the increase in direct investments resulted from a sharp rise in new manufacturing investments, which totaled $1.4 billion last year, compared with about $1 billion in 1959. While capital outflows and retained earnings were up in most areas, the expansion was greatest in Europe, where manufacturing investment increased from $2.9 billion in 1959 to $3.8 billion in 1960. New investments in the petroleum industry for all areas also advanced last year, rising almost 30 percent to $644 million.

Housing Vacancies

The vacancy rate of the nation's rental units continued during the second quarter of this year the steady rise which began in 1958, according to the Census Bureau. During the April-June period the number of units vacant and available for rent rose slightly to 8.1 percent of all rental units, compared with 8.0 percent in the first quarter and 7.3 percent in the second quarter of 1960. In mid-1958, the rate stood at 6.0 percent.

Compared with a year ago, rental vacancy rates have risen in all four sections of the country. The largest advance occurred in the South, where the vacancy rate reached 9.6 percent of the available units in the second quarter, compared with 8.3 percent in the same period a year ago. In the North Central, the proportion of rental units vacant rose from 7.5 percent to 8.8 percent. Smaller increases occurred in the Northeast and West where the rates advanced to 4.5 and 10.7 percent, respectively.

ADDITIONS TO UNITED STATES DIRECT FOREIGN INVESTMENTS



Source: U.S. Department of Commerce.

Gross National Product

The nation's output of goods and services rose to a seasonally adjusted annual rate of $516.1 billion in the second quarter of this year. The gain of $15.3 billion over the previous period followed three successive quarterly declines and brought real output back to the previous peak of a year earlier.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	2nd Qtr. 1961	*1st Qtr. 1961*	*2nd Qtr. 1960*
Gross national product	516.1	500.8	506.4
Personal consumption	336.1	330.7	329.9
Durable goods	42.0	39.4	45.3
Nondurable goods	154.1	153.7	153.3
Services	139.9	137.5	131.2
Domestic investment	68.8	59.8	74.6
New construction	41.3	39.6	40.7
Producers' durable equipment	24.7	24.2	28.6
Change in business inventories	2.8	−4.0	5.4
Nonfarm inventories only	2.4	−4.3	5.1
Foreign investment	3.9	5.3	2.3
Government purchases	107.3	105.0	99.6
INCOME AND SAVINGS			
National income	n.a.	412.2	419.2
Personal income	413.2	404.7	403.1
Disposable personal income	361.8	354.3	352.7
Personal saving	25.8	23.7	22.8

Source: U.S. Department of Commerce.

During the second quarter both investment and consumption demand rose sharply. Investment outlays, accounting for more than half of the increase in GNP, increased by $9 billion, bringing gross private domestic investment up to $68.8 billion at midyear. The reversal from a $4 billion rate of inventory liquidation in the first quarter to an accumulation rate of $2.8 billion in the subsequent period was the main factor in a 15 percent advance in private domestic investment during the period.

Personal consumption expenditures rose by about $5.4 billion in the spring quarter, chiefly as the result of higher spending for automobiles and services.

Personal Income

Personal income reached record highs in every state in 1960, despite the slowdown in business activity which prevailed in the latter part of the year. For the United States as a whole, personal income totaled $400 billion, $19 billion above the 1959 level. Most of the states experienced percentage increases close to the national average. The largest advance, 23 percent, occurred in South Dakota. Other states with gains of more than 10 percent were North Dakota, Alaska, Hawaii, and Arizona.

On a per capita basis, personal income in 1960 averaged $2,223 in the country as a whole, compared with $2,160 in the previous year. However, price increases offset nearly all of this advance, and real per capita

(Continued on page 8)

THE LONG-TERM ADEQUACY OF RAW MATERIALS

HERBERT I. SCHILLER, Research Associate Professor

Contemporary Americans rarely see materials in their raw state. What the manufacturing process misses, packaging catches, in eliminating the slightest vestige of an earlier, unfinished condition. Even the once-familiar sight of the truck unloading coal in front of an apartment house or private home has disappeared with the shift to oil and gas and one of the last small links that reminded urbanites of natural processes has vanished. Taken for granted for decades and now banished even from the sensory fields of sight, smell, and touch by innumerable intermediate layers of processing, raw materials still provide the underpinning of the economy. A break in the line of supply of these basic substances would be reflected sharply in the interruption of production of the packaged glamour items which are so highly prized.

It is of some consequence, therefore, to contemplate the state of the economy's raw material supply, particularly since a striking change has manifested itself in recent years. A serious study of raw materials begins with this sentence: "The dominant fact which emerges from all discussions of the raw materials position of the United States is the nation's increasing dependence on foreign sources of supply." The evidence is presented in the table below.

What will the supply situation be like in fifteen or twenty years, or at the end of the century? Two studies, one of them exhaustive (*Resources for Freedom,* 5 volumes, President's Materials Policy Commission, 1952), the other cursory (Joseph L. Fisher and Edward Boorstein, "The Adequacy of Resources for Economic Growth in the United States," Study Paper No. 13 in U.S. Congress, Joint Economic Committee, *Employment, Growth and Price Levels*), have worked out estimates, under varying assumptions, of requirements for a number of important raw materials, for 1975, 1980, and 2000. Both studies were surprisingly sanguine about the prospects for finding an available supply to meet their very substantial requirements estimates. Great emphasis was placed on the flexibility and technical adaptability of the American economy in overcoming specific shortages.

SELECTED INDUSTRIAL MATERIALS: RATIO OF NET IMPORTS TO U.S. SUPPLY[a] 1937-39, 1956, AND 1959
(Percentages)

Material	1937-39 average	1956	1959
Aluminum	0	11.3	12.4
Bauxite	53.0	78.1	82.8
Petroleum	0	13.5	12.0
Iron ore	2.6	20.3	38.3
Copper	0	22.4	48.4
Wool, apparel	21.9	43.9	....
Lead	0.2	56.5	61.9
Zinc	6.3	57.8	43.8
Fluorspar, all grades	13.4	59.5	74.1
Tungsten[b]	41.8	59.7	n.a.
Manganese[c]	n.a.	82.7	91.3
Nickel	99.2	95.5	100.0

[a] Supply equals production plus imports minus exports. Scrap and other reclaimed material excluded.
[b] Excluding ferrotungsten.
[c] Excluding ferromanganese.
n.a. Not available.
Sources: U.S. Bureau of Mines and U.S. Bureau of the Census, as presented in Percy W. Bidwell, *Raw Materials, A Study of American Policy* (New York: Harper, 1958), p. 5; U.S. Bureau of Mines, *Minerals Yearbook, 1959.*

For the purposes of this review it may be most useful to put aside numerical estimates of future requirements of raw materials for the American economy, and discuss instead a few general considerations that bear on the adequacy of supply. In doing this we avoid the slippery problems of estimating population size, the level of defense spending, and the rate of growth of the gross national product. For convenience, the categories we wish to consider may be termed technological, social, and political.

Technological Developments

On technological grounds there is the most room for optimism concerning long-run raw material availability. Technical development affecting industrial processes is advancing on many fronts, all of which bear directly on the supply of raw materials. Completely new industries have been designed and built in recent years, producing goods from new or relatively abundant materials, thereby reducing the strain on items in shorter supply. Two examples will suffice. The synthetic rubber industry, utilizing a petroleum (or alcohol) base has eliminated the dependence on Southeast Asian rubber shipments. Natural rubber remains a significant American import but it will never again assume the critical importance it possessed in the early 1940's, after Japanese armies had overrun the rubber-producing estates in Indochina, Indonesia, and Malaya. The plastics industry, utilizing a wide variety of relatively plentiful raw material sources — coal, water, air, and limestone among others — has developed into a major branch of the economy and its products have found their way into lines of goods which hitherto had consumed scarcer substances in their fabrication.

Part of the technological conquest of materials shortages occurs in the continuing effort to maximize the efficiency of the production process. Though proceeding unevenly from industry to industry, significant progress has been achieved and more may be anticipated. The amount of coal burned to produce a kilowatt of electricity has been pushed down impressively in recent years. In the production of steel, the new oxygen process, used with great success abroad and already introduced with good results here, permits far higher outputs with the same mixes.

One of the windfalls of a developed state is the raw material supply that may be recaptured from the existing installations, articles, equipment, and general artifacts of an industrialized society. The recycling of materials has attained a high level in certain branches of economic activity and may be expected to be applied more systematically throughout all industry as techniques for recovery are improved. In water supply, re-use for human consumption as well as for industrial purposes already is widespread. In the production of steel, an increasing proportion of the raw material mix utilizes scrap metal rather than fresh iron ore. In the electric furnace, steel scrap is used exclusively.

Modern scientific instruments and techniques are assisting in the discovery of new mineral deposits which probably would have escaped older methods of detection. Once discovered, more efficient means to secure the extraction of the minerals also have been developed. Far

less oil is being left in oil pools whenever current knowledge of pressure control is accepted and applied in the oil fields.

Poorer qualities of ore, which at one time would have been considered unusable, are being brought into commercial production by improved technology. Given sufficient energy for processing, a very big qualification, ordinary rocks may be considered as the mineral-bearing sources of the future. It is estimated that 100 tons of average igneous rock contains about 8 tons of aluminum, 5 tons of iron, 180 pounds of manganese, 40 pounds of nickel, 20 pounds of copper, and 4 pounds of lead.

Only a very small fraction of the annual $12 billion research and development budget goes into the quest for efficiency in raw materials usage. Still, it is reasonable to suppose that as total expenditures on all research rises, there will be direct and indirect benefits to the community in providing an enlarged supply of substitutable raw materials. Technology, therefore, is the positive element in the raw materials supply equation. The social and political factors are less reassuring.

Social Considerations

The social factor in raw materials supply is the use to which the society puts its natural resources. Into what final form are the products of the land, the mines, the forest, and the waters turned? When trees are cut down and pulped, is the newsprint consumed as paper for textbooks, scientific journals, comics, literature of the ages, or advertising supplements? When copper is extracted and smelted in Arizona and transported to New Jersey for refining and fabricating, is the resulting fine wire installed in tape recorders that are used in schools for language instruction, in air-conditioning sets in rumpus rooms, or in the intricate instrument systems in military aircraft? When iron ore is lifted out of the Mesabi Range or taken from Venezuela's famed Cerro Bolivar and burned almost pure into high-grade steel, does it eventually find its way into an annual production of 6 million new cars, into machinery for the re-equipment of capital facilities, into house and school construction, into roller coasters for amusement parks, or into foreign aid shipments?

Our consumer society has an enormous and apparently insatiable appetite for types of goods which devour incredible quantities of raw materials. An average-sized automobile represents 2½ tons of ingot steel, to say nothing of considerable quantities of rubber, copper, chrome, and fabric. There is concern that the present social usage, reflected in the composition of the national output, threatens the adequacy of future raw materials supply. Despite the already enumerated possibilities of technology, there is a strong feeling that it is going to be difficult, perhaps unwise, to guarantee to each of the 300 million Americans who are expected to be on the premises by the turn of the century an unlimited number of an unlimited range of consumer durable goods.

If current consumption patterns do cast a shadow on raw materials adequacy in the next generation, or the one after that, it seems that a social usage more economical of materials and effort should be devised. For one thing, this could involve a changed attitude toward industrial styling and design, which has generally emphasized rapid discard and obsolescence. A nationally rehabilitated mass transport system could be an alternative to the new car production of 27 million units visualized for A.D. 2000 by some forecasters. Possibly individuals may be faced with choosing between higher personal cultural-educational standards and individual goods accumulation — though current prospects of mass preference for the former seem slim indeed.

National defense is another element in the social accounting which will affect the future supply of raw materials. It, too, is a voracious consumer of goods with high raw materials content. If present levels of security expenditures are maintained or expanded, as they well may be, the materials consumed cannot fail to further sap the pool of basic resources, however successful technical efforts to expand it may be.

Political Factors

The political factor in raw materials supply is of an international character and concerns the rapidly changing status of the raw-materials-producing nations of the world, who are also, for the most part, the underdeveloped countries.

From the United States' point of view, it is a wry historical fact that as its dependency on foreign sources of materials grows, the exporting societies exhibit increasing restlessness with their traditional role as raw material suppliers. The emergence of national cohesion in many of the poorer countries has been accompanied by a tremendous wave of economic nationalism. Searching for ways to raise deplorably low living standards, nations with less than $250 annual per capita income, and a dependence on a few export products in their international trade, feel that the vicious cycle in which they are caught up must be broken somewhere. Consequently, industrialization programs proliferate, and though exportation of raw materials continues, many leaders in these lands regard such trade as a necessary but passing evil.

Two sets of statistics have relevance here. They are not usually considered to have any complementarity in the United States but such a linkage is made elsewhere. In one frame of economic activity sits the American economy, representing approximately 7 percent of the world's population and consuming (in 1959) almost 22 percent of the world's production of iron ore, over 25 percent of the copper, about 25 percent of the lead, 41 percent of the petroleum, over 33 percent of the nickel, and 38 percent of the bauxite from which aluminum is made. The other statistics are calculations (from Harrison Brown's book, *The Next Hundred Years,* New York: Viking, 1957) of what would have to be extracted from the earth's surface if the underdeveloped nations of the world were to reach current levels of American materials consumption on a per capita basis. Though *total* world production of iron ore in 1959 amounted to less than half a billion tons, 18 billion tons would be required to bring the world to present-day American consumption levels. For copper, 300 million tons, contrasted with a 4 million world output. For lead, 300 million tons, with a world output of 2½ million tons. These are just a few examples, to which would have to be added "huge quantities of other metals and non-metals. These totals are well over one hundred times the present world annual rate of production."

These relationships point unmistakably to a radical reapportionment of the world's raw material supply. It is now only in its infancy. The current heavy oversupply both in the United States and elsewhere of several materials, such as petroleum, aluminum, copper, and coal, is not a lasting condition. The cyclical behavior of the Western European and American market economies frequently produces material gluts which disappear rapidly when new spurts of expansion develop. Furthermore, the

raw materials consumption needs of the backward countries is only beginning.

There is little danger that in the years immediately ahead, Saudi Arabia will keep all its oil to itself, or that the Venezuelans will refuse to ship out iron ore, or the Malayans, tin. A first consequence will probably be the intensification of the competitive scramble for materials. Costs will most likely move upward as societies strive in every conceivable way to improve their bargaining positions in a tightening international market.

In a later stage, possibly still a decade or two away, as the less-developed countries make progress in their industrialization programs, larger shares of their materials production will be consumed domestically. Their international trade will begin to follow the historic patterns of the other economies, which earlier made the shift from agriculture to industry.

In the still-enshrouded future beyond this point, a time will inevitably arrive when an international method of raw materials sharing will be developed, along with a varied assortment of other international pooling arrangements. Much before this occurs, the United States will have to face a world raw materials situation in which it cannot expect to receive, without struggle, the lion's share of the world's resources.

Summary

Though the current raw materials supply situation of the United States is certainly not one of crisis, certain trends, domestic and international, already evident could produce at some future date a disruptive impact on industrial activity and living standards. If the raw materials requirements of a dynamic American economy in the next generation are to be satisfied, it will be necessary to combine imaginative technological innovations, shifts in the preferences of the population to goods which are less materials-consuming, and efforts in the direction of administered materials-sharing agreements in which surpluses will be transferred in an orderly fashion on some agreed priority basis to deficiency areas.

Making Less and Saving More

(Continued from page 2)

tions are interested in growth, this means increased marketing activity during cyclical downswings if they are to increase their share of the consumer saving dollar.

On the other hand, sellers of goods and services are likely to have even more difficulty during downswings than in the past, particularly sellers of such discretionary items as many durable goods and vacations. Possibly some of them may be able to offset these effects by increased promotional activity, but the over-all effect is still likely to be an intensification of cyclical fluctuations for their products.

Third is the effect of this behavior on those responsible for it, the consumers. Certainly, if a consumer's income is diminished or he is on the verge of losing his job, setting aside extra reserves makes sense. Otherwise, however, a question could be raised regarding the rationality of such behavior. It means that spending becomes even more concentrated in periods when the supply of goods is least ample, during upswings, so that the buyer is likely to end up paying more for goods than he would pay otherwise. Furthermore, when goods are in greatest supply, on a cyclical downswing, purchasers will be even less numerous than at previous such times, thereby acting to depress prices still further.

Whether or not such actions make sense from the point of view of the individual, it is in any case detrimental for society. What makes the situation even more odd is that it is the high-income groups, who account for the bulk of the savings, who may be responsible for the bulk of this retrenching in recession. And they are the ones who least need to retrench.

In many ways this is an interesting problem for a financial psychiatrist, if any such exists. This is particularly so because many businesses are attempting to act in the opposite manner — they are trying to increase outlays, at least capital expenditures, when sales are slow and to hold them down when sales (and prices) are high.

Thus, we have businessmen acting more like consumers and consumers acting more like businessmen; and what makes the situation more paradoxical is that in many instances these are undoubtedly the very same people! RF

Recent Economic Changes

(Continued from page 5)

income in 1960 was only a little more than in 1959. Incomes averaged over $3,000 per person in Delaware and the District of Columbia, and three states — Connecticut, Nevada, and New York — had per capita incomes between $2,750 and $3,000.

Unemployment

The number of jobless fell off seasonally in August to 4.5 million persons. However, since the 598,000 decline was normal for this time of year, the seasonally adjusted rate of unemployment remained unchanged at 6.9 percent. This marked the ninth consecutive month in which the jobless rate has hovered near 7 percent.

The number of long-term unemployed persons, those out of work for 15 weeks or more, showed some improvement during the month but continued to run well above year-ago levels. In August long-term unemployment decreased 194,000 to 1.4 million. A year ago the number of persons in this category totaled 816,000.

Employment in mid-August rose 40,000 to 68.5 million, a record high for the period.

Labor Department data, in thousands of workers, are as follows:

	Aug. 1961	*July 1961*	*Aug. 1960*
Civilian labor force	73,081	73,639	72,070
Employment	68,539	68,499	68,282
Agricultural	6,325	6,453	6,454
Nonagricultural	62,215	62,046	61,828
Unemployment	4,542	5,140	3,788
Seasonally adjusted rate	6.9	6.9	5.9

Dividend Payments

Cash dividend payments by corporations issuing public reports totaled $935 million in July, according to the latest report by the Commerce Department. The July figure represented a gain of 4.5 percent over payments of $895 million in the same month last year. Most of the year-to-year advance centered in the communications and public utilities industries, each of which showed a 12 percent gain over July, 1960.

On a cumulative basis, publicly reported dividend payments were up 2 percent, from $7.5 billion in the first seven months of 1960 to slightly over $7.6 billion in 1961.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Receipts from Foreign Travelers Up

Foreign visitors spent $970 million in the United States in 1960, plus $110 million in fares paid to American ships and planes for international transportation, according to the U.S. Department of Commerce. This is well above 1959 receipts of $900 million from international travel and of $90 million from fares.

As is shown in the accompanying chart, one-third of the $70 million increase in travel receipts came from Mexican visitors. Most of the remainder came from residents of overseas countries, particularly Europe and the Far East. Although Canada's share of the increase was negligible, receipts from Canadian residents were about $470 million, roughly half of total travel receipts.

Despite the increase in receipts over the previous year, the United States balance of payments on this account went deeper into the red, as travel outlays by American residents increased even more. As a result, the excess of travel payments over receipts rose in 1960 by 10 percent, to $1.1 billion.

Supermetropolis Forming in Eastern U.S.

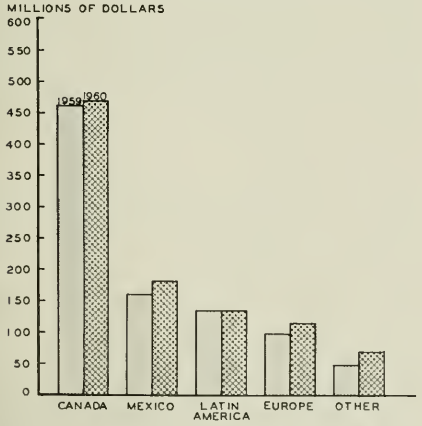
The eastern United States has a growing supermetropolitan area containing 31.5 million inhabitants, according to the 1960 Census of Population. This concentration of population is to be found within the boundaries of 32 contiguous Standard Metropolitan Statistical Areas stretching through 10 Northeastern and Middle Atlantic states from New Hampshire to Virginia. It includes the cities of Boston, New York, Philadelphia, Baltimore, and Washington, D. C., as well as 35 other large central cities.

During the 1950's the population of this great metropolitan complex increased by 4.3 million, or 15.7 percent. Although the population growth of the combined areas has been less than the national rate of 18.5 percent, the population of the suburban rings of their central cities increased by 44 percent between 1950 and 1960. This more than offset a decrease of 2.8 percent in the population of the central cities.

At the same time that this huge eastern metropolis has evidenced growing pains, there seems to be the beginning of two more great metropolitan concentrations of people. One of these is the Chicago region and its extension southwest toward St. Louis and the other is the Los Angeles-San Diego area. The area around Chicago showed an increase in the 1950's of 1.2 million people, or 21.6 percent. However, the SMSA around Los Angeles showed the greatest rate of growth of any in the country, with an increase of 2.7 million or 45.5 percent.

There are still substantial areas of "open" space within each of the SMSA's. However, the main highways linking the central cities generally pass through areas of roadside business and residential developments linking together the more densely populated areas.

EXPENDITURES OF FOREIGN TRAVELERS IN THE U.S., 1959 AND 1960



Source: U.S. Department of Commerce, *Survey of Current Business*, June, 1961, p. 19.

New "Opinion Meter"

Secret ballots in group meetings without fussing with many tiny slips of paper are now possible with a newly developed "Opinion Meter." Developed by the Rex Metal Craft Instrument Division of Rex Metal Craft, Inc., the Opinion Meter is a mechanical device that tallies negative, positive, and undecided votes for groups ranging from 10 to 100 persons.

Each member of the group operates a signal button during a vote, and the yeas, nays, and undecideds show up on the Opinion Meter's dial as a group percentage. The price of the meter is $295; signal devices run $3.40 each in multiples of ten.

City Revenue Rises Over $1 Billion

Revenue of city governments in the United States amounted to $14.9 billion in the fiscal year ending June 30, 1960. This represented an increase of $1.2 billion, or 8.5 percent, from the 1959 figure, according to the U.S. Bureau of the Census.

Spending of the 18,043 cities totaled $15.3 billion in fiscal 1960 as against $14.5 billion in the previous year. These revenue and expenditure totals include city-operated utilities and employee retirement systems. Excluding such amounts, general revenue of the city governments amounted to $11.6 billion; general expenditures were $11.8 billion.

City property taxes again supplied the greatest single source of revenue, $5.2 billion, or 8 percent more than in 1959. Collections of city-imposed general and selective sales taxes rose 17 percent to $1.2 billion. Intergovernmental revenue, mainly from the states, totaled $2.3 billion, nearly one-fifth of city general revenue in 1960. Other general revenue, including current charges, special assessments, and miscellaneous sources, amounted to $2.9 billion. During fiscal 1960, the cities went further into debt. They issued $2.4 billion of long-term debt and retired $1.3 billion previously incurred. At the end of the fiscal year, their debt burden totaled $23.2 billion.

The Census report emphasizes that these figures cover only the finances of city governments and dependent agencies, and do not account for any other local governments which impose taxes and provide services in most urban areas.

LOCAL ILLINOIS DEVELOPMENTS

Construction Funds Approved

A large volume of funds for construction in Illinois has been approved. Bills appropriating $194.9 million in bond money for construction at the six state-supported universities became law on July 31. These provide $98.5 million for the University of Illinois, $53.2 million for Southern Illinois University, and $43.2 million for the State Teachers College Board. The board has charge of universities at Charleston, DeKalb, Macomb, and Normal.

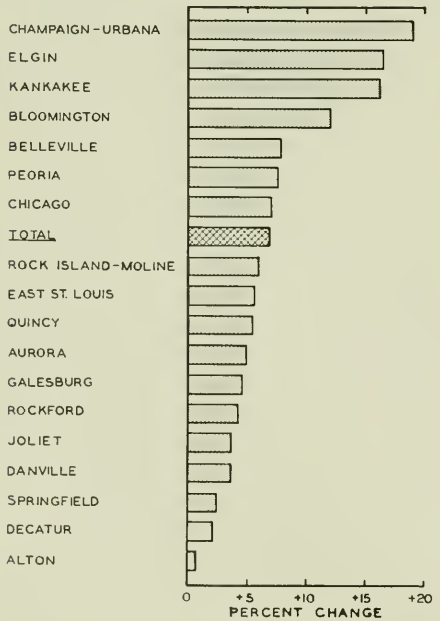
More than $138 million has been allocated for improvements at state welfare institutions and for construction of six mental health clinics; these funds will come from the mental health bond issue approved by Illinois voters last November. These will enable the State to add facilities for 2,792 new beds and make improvements in existing institutions. The six new clinics will be constructed at a cost of $37.8 million.

Funds released early in August by the governor from the federal hospital construction fund include $780,000 for part of the costs of St. Joseph's Hospital, Joliet, and St. Anthony's Hospital, Rockford; $822,000 each for St. Mary's Hospital, Quincy, and Mercy Hospital, Urbana; $195,000 for the Community Memorial Hospital, Hoopeston; and $193,000 for Condell Memorial Hospital, Libertyville.

Tax Collections About the Same

Collections from the state's major tax sources totaled nearly $60 million in July on June tax liability, as reported by the Illinois Department of Revenue.

CHANGES IN POSTAL RECEIPTS, 1959 TO 1960



Sources: Local post office reports.

More than half of this amount came from the retailers' occupation tax, and another fourth from the motor fuel tax. Collections from other sources included: use tax, $1.7 million; cigarettes, $4.0 million; liquor, $3.8 million; public utilities, $3.8 million; and petroleum, $99,000. Total tax collections for the first seven months of 1961 amounted to $399.0 million, compared with $399.8 million for the same period in 1960.

A number of new tax measures passed by the 72nd Illinois General Assembly went into effect August 1. These included several sales-tax broadening bills such as the one applying a 3 percent tax on items purchased by doctors and dentists for professional use (drugs, bandages, dental fillings, and so forth). Others extended the state sales tax to remodeling and reconditioning of personal property for users, to retail sales to the State of Illinois and its subdivisions, and to sales by nonprofit organizations to members, guests, and others. A 3 percent tax on hotel and motel receipts also went into effect on the same date.

Already in effect in July were the 3½ percent sales tax, the additional penny per pack tax on cigarettes, and the application of the 3½ percent sales tax rate to building materials and to sales by out-of-state retailers soliciting business in Illinois by means of catalogs. During legislative hearings it was estimated that the last-mentioned measure would add as much as $5 million annually to the state's general tax collections.

New Center of Population

The center of population of the United States is now located on a Clinton County, Illinois, farm. The spot is about 6½ miles northwest of Centralia and one mile south-southwest of Shattuc, Illinois. The point was determined by the United States Census Bureau and the Coast and Geodetic Survey on the basis of the 1960 Census of Population.

The "center of population" is defined by the Census Bureau as that point upon which the United States would balance if it were a rigid plane without weight, with the population distributed upon it and with each individual being assumed to have equal weight.

The center point, which was first identified after the 1870 census, has been determined after each census since and has also been calculated for the earlier censuses. The center point at the time of the first census in 1790 was located 23 miles east of Baltimore, Maryland, and since then has moved westward a total of 701 miles.

Postal Receipts Mount

Total postal receipts for 18 major trading centers in Illinois in 1960 amounted to $227,354,599, a gain of $14,504,932 or 6.8 percent over the previous year. Increases were reported for all of the cities, ranging from a high of 19.3 percent for Champaign-Urbana to a low of 0.5 percent for Alton.

As is shown by the accompanying chart, other cities whose postal receipts showed increases above 10 percent were Elgin, 16.4 percent; Kankakee, 16.1 percent; and Bloomington, 11.7 percent. The only other cities besides Alton which had increases of less than 3 percent were Springfield with 2.1 percent and Decatur with 1.7 percent.

A small part of the gains in postal receipts was the result of slight rate increases on second and third class mail which went into effect during 1960.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

July, 1961

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS	$34,189[a]	1,263,175[a]	$466,450[a]		$19,274[a]	$14,340[a]
Percentage change from June, 1961	−48.3	+1.0	+0.8	−19	−11.8	−0.9
Percentage change from July, 1960	−20.7	+7.0	−15.1	+4	+7.2	−4.6
NORTHERN ILLINOIS						
Chicago	$25,888	929,925	$335,106		$17,721	$12,185
Percentage change from June, 1961	−41.6	+2.1	+0.2	−19	−12.4	−1.2
Percentage change from July, 1960	−19.9	+7.2	−15.8	+5	+7.3	−6.2
Aurora	$ 805	n.a.	$ 7,255		$ 78	$ 152
Percentage change from June, 1961	−28.8		+5.5	−22	−11.2	−8.2
Percentage change from July, 1960	−50.1		−24.8	−6	−11.7	+6.7
Elgin	$ 579	n.a.	$ 4,961		$ 54	$ 120
Percentage change from June, 1961	+46.2		+0.5	n.a.	−4.2	+4.9
Percentage change from July, 1960	+45.8		−18.9		+2.8	+5.8
Joliet	$ 594	n.a.	$ 9,867		$ 94	$ 113
Percentage change from June, 1961	+21.7		+9.8	−19	−10.2	+4.9
Percentage change from July, 1960	−6.5		−10.9	−2	−5.2	+5.8
Kankakee	$ 100	n.a.	$ 4,511		n.a.	$ 63
Percentage change from June, 1961	−71.3		+5.1	n.a.		+4.4
Percentage change from July, 1960	−45.4		−14.5			+14.7
Rock Island-Moline	$ 1,103	27,846	$ 9,415		$ 125[b]	$ 171
Percentage change from June, 1961	+39.8	−1.8	+0.4	n.a.	−8.0	+7.2
Percentage change from July, 1960	−37.9	+2.9	−19.8		+3.2	+16.8
Rockford	$ 1,213	51,148[c]	$16,286		$ 213	$ 231
Percentage change from June, 1961	−43.3	−4.2	−4.7	−19[c]	−7.3	−1.0
Percentage change from July, 1960	−24.6	+8.9	−7.8	+1[c]	−0.8	+10.6
CENTRAL ILLINOIS						
Bloomington	$ 520	11,441	$ 4,765		$ 93	$ 111
Percentage change from June, 1961	−11.1	−2.2	−3.1	n.a.	+4.4	+1.6
Percentage change from July, 1960	+38.7	+19.2	−8.8		+9.5	+15.9
Champaign-Urbana	$ 310	16,602	$ 7,427		$ 93	$ 115
Percentage change from June, 1961	−65.4	+7.9	−1.8	n.a.	−2.5	+6.9
Percentage change from July, 1960	−72.1	+10.3	−0.8		+10.4	+6.8
Danville	$ 158	15,240	$ 5,647		$ 53	$ 73
Percentage change from June, 1961	−70.3	+3.1	+6.8	−13[c]	+3.2	−9.4
Percentage change from July, 1960	−24.0	+9.5	−3.4	+3[c]	−3.1	−12.5
Decatur	$ 720	33,956	$10,060		$ 127	$ 125
Percentage change from June, 1961	−10.2	−2.2	+5.6	−21	−1.3	+3.1
Percentage change from July, 1960	+531.6	+2.8	−8.6	+3	+8.5	+12.1
Galesburg	$ 414	8,642	$ 4,005		n.a.	$ 47
Percentage change from June, 1961	+170.6	−1.3	+10.3	n.a.		−5.7
Percentage change from July, 1960	−5.5	+6.9	−11.9			−4.4
Peoria	$ 582	59,862[c]	$14,486		$ 249	$ 282
Percentage change from June, 1961	−78.3	−2.6	+2.4	−17	−0.4	−0.8
Percentage change from July, 1960	−21.5	+13.0	−21.6	+3	+6.6	+2.6
Quincy	$ 186	12,908	$ 4,774		$ 53	$ 67
Percentage change from June, 1961	−96.1	+0.7	+2.6	n.a.	−8.4	−34.1
Percentage change from July, 1960	−1.6	+8.0	−10.4		+10.6	−13.5
Springfield	$ 469	41,092[c]	$11,446		$ 145	$ 347
Percentage change from June, 1961	−49.1	−4.8	+2.0	−15[c]	+2.7	+17.4
Percentage change from July, 1960	−46.4	−5.5	−8.3	−1[c]	+9.6	+29.0
SOUTHERN ILLINOIS						
East St. Louis	$ 73	18,238	$ 7,515		$ 129	$ 41
Percentage change from June, 1961	−70.8	+6.5	+4.0	n.a.	−10.4	−41.9
Percentage change from July, 1960	−12.0	+5.2	−17.4		−8.0	−64.5
Alton	$ 207	23,751	$ 4,437		$ 47	$ 35
Percentage change from June, 1961	−95.3	−4.9	+6.0	n.a.	−6.2	−15.8
Percentage change from July, 1960	−18.8	+8.8	−13.2		+2.7	−2.0
Belleville	$ 268	12,525	$ 4,487		n.a.	$ 53
Percentage change from June, 1961	−50.2	−0.3	+5.6	n.a.		+7.0
Percentage change from July, 1960	+45.7	+6.3	−10.2			+7.8

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for June, 1961. Comparisons relate to May, 1961, and June, 1960. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending July 21, 1961, and July 22, 1960.

INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN SEPTEMBER

The economy registered little change in September. The index of industrial production fell to 112 percent of the 1957 average, 1 point below the August level. Steel output exceeded 2 million tons a week, but automotive production, which was down 13 percent from September last year, rose less than seasonally. Output of electric power, bituminous coal, and petroleum increased after allowance for seasonal influences. Department store sales were at the August level of 150 percent of the 1947-49 average. New car deliveries by automobile dealers were disappointing in the first part of the month, but picked up well in the last third.

A marked increase in military expenditures was an important factor in the business picture. As a result, the federal deficit was running about $2 billion above the corresponding period last year.

Construction Steady

A small increase occurred in new construction expenditures during September, a gain of 1 percent at the seasonally adjusted annual rate. All of the rise, which brought the unadjusted total to $5.4 billion, was in public construction, with highways and military facilities the prime contributors.

Private construction was steady at $3.7 billion, which represented a small gain on a seasonally adjusted basis. Residential building was off less than seasonally, and nonresidential building and public utility construction made small advances. Of the major types of private construction, only farm construction was down more than seasonally.

In the first nine months of 1961, total construction was 2 percent above the corresponding period in 1960, with most of the advance attributable to increased public expenditure.

Further Rise in Sales and Inventories

Sales of manufacturing and trade firms increased $1.2 billion to $62.9 billion on a seasonally adjusted basis in August. Wholesalers experienced a 4 percent gain, while manufacturers and retailers each had increases of 1 percent. Both the durable and nondurable goods groups contributed to the sales advance in wholesale trade. The rise in manufacturing sales was shared by most hard goods industries other than motor vehicles, while that in retailing was concentrated in nondurable goods.

Inventories of manufacturers were up $500 million in August after allowance for seasonal influences, whereas wholesale stocks held steady and those of retailers fell $200 million as a result of a cut in inventories of automotive dealers. The total book value of manufacturing and trade inventories at the end of the month amounted to $92.1 billion on a seasonally adjusted basis, about $1 billion less than the year-earlier total.

New orders received by manufacturers were up 3 percent from July to August after adjustment for seasonal factors. Much of the gain occurred in those durable goods industries benefiting from defense business, particularly the aircraft and electrical machinery industries.

Record Farm Output in Prospect

Present estimates indicate that 1961 farm output will equal 1960's record level of 127 percent of the 1947-49 average. Meat, milk, eggs, and other livestock products are expected to exceed 1960 production by 5 percent, approximately offsetting lower output of field crops. At the beginning of September crop production was estimated to be down 4 percent from last year, but the October forecast is expected to raise the prediction. The wheat harvest is down 10 percent from 1960 and feed grain output down 11 percent. However, production of soybeans is slated to rise 29 percent, and increased sugar and tobacco outputs are anticipated. Beef production is expected to rise 3 percent and milk flow 1 percent.

The 1960 farm output was 8 percent above domestic and export needs, so 1961 is not likely to make the surplus disposal job of the Agriculture Department any easier.

Consumers Still Wary of Debt

Consumers expanded their short- and intermediate-term instalment debt $26 million in August, after allowance for seasonal factors. Automobile paper outstanding declined $87 million, the ninth consecutive drop in this adjusted series. This was more than offset by an increase of $82 million in personal loans and small increases in repair and modernization loans and in other consumer goods paper. At the end of August, total consumer instalment debt amounted to $42.6 billion.

Additions to charge accounts and to service credit accounted for nearly all of a $73 million gain in noninstalment debt, which brought the total of this category to $12.3 billion at the end of August. Total consumer debt amounted to $54.9 billion on August 31, $800 million more than the year-earlier figure.

THE ILLINOIS INDUSTRIAL DEVELOPMENT ACT · By Joseph D. Phillips · Page 8

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

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The Uninvited Guest

On September 7, President Kennedy wrote the heads of 12 steel companies asking them to absorb a scheduled wage increase on October 1 without raising steel prices. The reason for this letter was the President's concern that "a steel price increase in the months ahead could shatter the price stability which the country has now enjoyed for some time." A price increase in steel, according to the President, would add materially to costs of the defense program both directly and through price increases in other industries. In addition, such a price increase might serve as a basis for new wage demands by the steel workers when collective bargaining negotiations begin next year.

This letter has created a considerable furor. In his answer to the President, Roger M. Blough, president of United States Steel, expressed resentment at the government's seeming "to be assuming the role of informal price-setters for steel." To Mr. Blough, as well as to many others, the President's letter raised questions of much greater import than the immediate issue of a price increase, serving to encroach on "future freedom in marketing." Other critics of this letter have referred to it as "economic McCarthyism" and as interference with the mechanism of free markets and the private enterprise system.

Tempest in a Teapot?

The use of moral persuasion by the Administration in wage negotiations is not new. Similar attempts had been made by both Presidents Truman and Eisenhower. The only novel feature of President Kennedy's letter is its much firmer tone and, perhaps, the use of statistical data to show that the steel companies could operate profitably even at present prices.

Furthermore, there would seem to be little validity in the argument that this approach goes beyond the sphere of government regulation of the free enterprise system. The area of collective bargaining is no exception. Collective bargaining procedures, wages, and working conditions have been subject to some regulation for many years. Wage negotiations are frequently carried out in the presence of government mediators, and often with the active participation of United States Department of Labor representatives. Accordingly, why the furor?

The Outsider

The primary reason for the furor seems to be that this action symbolizes an attempt by the government to inject the influence of the consuming public into price and wage decisions. In the case of wages especially, negotiations are carried out between what are, in effect, two monopolies — a monopoly representing the workers and a monopoly representing management. This is especially true with the current prevalence of industry-wide bargaining. The agreement reached by these monopolies is invariably, and naturally, one that serves their own self-interest and little more.

Under these circumstances, it does not take knowledge of economic theory to demonstrate that such agreements may not be in the best interests of most of the population, particularly in view of the absence of any expression of sentiment from consumer groups at these sessions.

It may be argued that the protagonists are consumers themselves. However, there is little doubt that most people in such a bargaining situation consider first their well-being as a union or a management executive with only minor attention to the welfare of consumers in general. Indeed, the more they can get for their own side, the better off *they* are as consumers, whereas the reverse is true of the rest of the population (at least until even higher increases are negotiated in other industries). Everybody may be against higher costs and price levels, but only in the abstract. How many workers or management executives are likely to forgo increased wages or prices for the sake of not rocking the boat — especially when one can rationalize that only slight rocking would result anyway?

For the Benefit of All

To be sure, the two parties are subject to certain constraints. If the wage increase obtained by the union is unusually high, management programs for technological displacement of workers will receive even greater impetus. If management grants a large increase with the expectation of passing it on to the consumer, the resulting rise in price may lead to loss of market share to other products. However, these are generally not tight constraints. Unions have been known to demand, and obtain, substantial increases despite certain technological aftereffects; and management has been known to miscalculate the effect of price increases on product demand. There is little doubt that more than one wage increase has been negotiated with a tacit understanding that the cost of the increase would be passed along to the consumer.

Accordingly, it seems clear that if prices are to be kept under control, principal labor agreements are best carried out in the presence of the most important group of all, the public, and in the light of its best interests. In view of the fact that the public is not organized, and in view of the absence of any United States Department of the Consumer (although such a department is being considered), it would seem only reasonable for the government to act on their behalf. Whether this is best accomplished in the form of Presidential letters or in some other way is a moot point. The important thing is that both unions and management should be apprised of the probable consequences of particular agreements on the national welfare, and be influenced accordingly.

In the present instance, a price increase would hardly

(Continued on page 6)

CORN REFINING

The significance of corn in American agriculture is generally recognized, but less commonly known is the importance of that type of corn processing termed "wet-milling," or corn refining.

Wet-milling is markedly different from dry-milling, feed-mixing, and distilling — the three other major types of processing of commercial corn — which mainly involve the crushing, mixing, and fermenting of corn, respectively. Instead, refiners are chiefly concerned with the separation of various parts of the kernel, and with the further conversion of these parts into products quite dissimilar to their original form.

A comparatively young industry, corn refining originated with the discovery in 1842 of a practical way to obtain starch from corn on a large scale. However, the industry faced formidable competition during its early years from older sources of starch, such as wheat and potatoes. After the Civil War, the industry grew rapidly. Contributing to this growth were such factors as the discovery of various products other than starch that were obtainable from corn, the growing awareness of greater starch yields at lower cost per acre than any other grain, and finally, the attraction of plentiful year-round supplies unequaled by any other grain.

Before the turn of the century, many production plants had begun to consolidate in order to improve their competitive positions. By 1910, numerous small, inefficient plants were either abandoned or razed. Today, there are only 13 plants in the nation engaged in the extraction of cornstarch and its derivatives. These plants, all in the Corn Belt, are characteristically large. They employ complex processes and utilize huge volumes of raw material in their operations. Altogether, the industry in 1958 employed some 13,000 persons and shipped a product valued at more than $500 million.

Illinois — National Leader

Because of its proximity to raw materials, as well as its central position in relation to national markets, Illinois has played a major role in the industry since the 1880's. Not only has the State been a major producer, but it also has contributed materially to the development of scientific techniques of corn refining. Such basic processes as separation of the oil-bearing germ, recovery of corn oil, and manufacture of concentrated steepwater were first discovered and utilized in the state's plants.

Today, Illinois is the top corn-refining state. The 7,000 employees in the State make up more than half the total industry work force. Moreover, about three-fifths of the $500 million in shipments during 1958 originated from Illinois plants.

Illinois has only four refineries, but that number is greater than in any of the other five states with mills. These four plants together account for more than 60 percent of the industry's annual grind of about 160 million bushels. Largest of the mills here is the Corn Products refinery at Argo, near Chicago, which has an annual capacity of 35 million bushels. Besides Corn Products' other mill at Pekin, plants are operated in Illinois by A. E. Staley, at Decatur, and Union Starch and Refining, at Granite City. Staley and Corn Products are the nation's two largest manufacturers of corn products.

Manufacturing Process

Largely as a result of scientific research, corn refining has developed into a rigidly controlled and complicated process in which the four basic components of the kernel (starchy mass, hull, germ, and gluten) are utilized with little waste.

Wet-milling, as the term implies, requires large quantities of water. In fact, the typical plant employs water to move the raw materials, both along and downward, through a succession of chemical and mechanical processes. After cleaning, shelled corn is softened by immersion in warm water for several days. The swollen kernels are coarsely ground to free the oil-bearing germs, which are floated off in separating tanks. After the degerminated mass is finely ground, vibrating and revolving screens shake the hulls and fibers from the starch granules and gluten. The heavier starch is separated from the lighter gluten by the centrifugal force of high-speed machines.

At this point, the starch content can be either dried or further processed into syrups or sugars. Dried cornstarch is then ready for sale as a food or for industrial purposes. Wet starch, on the other hand, is mixed with water and heated in the presence of hydrochloric acid, resulting in a chemical action which, essentially, breaks it down first into syrups and then into sugars.

Uses and Consumption

The most important product sold by the industry is dried cornstarch, which accounts for about one-third of total sales. The paper industry is the largest consumer of cornstarch, followed by textiles, brewing, and candy.

Syrups and sugars together comprise another third of sales. About 95 percent of corn syrup sales are made to confectioners, syrup-mixers, ice cream producers, soft drink bottlers, and other food manufacturers, with the remainder being utilized in nonfood items, such as adhesives, rayon, leather, and tobacco. Crude sugar, because of its bitter taste, is used primarily for nonfood purposes; refined corn sugar is used almost exclusively in the making of food products, particularly bakery items.

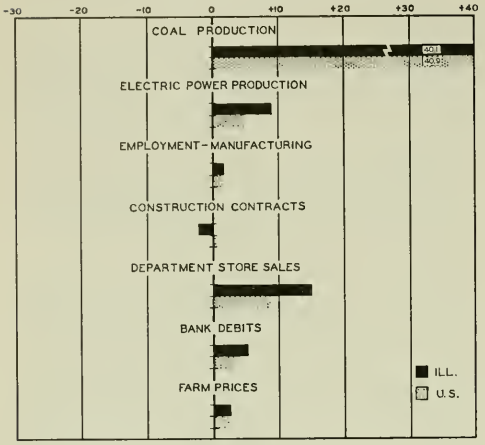
Another important product is corn oil, an edible vegetable fat extracted from the corn germ. Refined corn oil is employed chiefly for cooking purposes, as well as for a mayonnaise and salad dressing base. Crude corn oil is also used in making soap, glycerin, and dyes.

Most other by-products are extensively utilized in livestock and poultry feeds. Gluten, the protein substance of the kernel, may be made into corn gluten meal or may become a primary ingredient in corn gluten feed. Even steepwater, the water in which corn is soaked prior to processing, has value. It is not only an important corn gluten additive, but has also found application in the manufacture of antibiotics, such as penicillin, and drugs.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS[a]

Percentage changes, July, 1961, to August, 1961



[a] Not seasonally adjusted.

ILLINOIS BUSINESS INDEXES

Item	Aug. 1961 (1947-49 =100)	Percentage change from July 1961	Percentage change from Aug. 1960
Electric power[1]	280.0	+ 9.0	+ 5.8
Coal production[2]	82.3	+40.1	− 2.9
Employment—manufacturing[3]	96.9	+ 1.7	− 1.5
Weekly earnings—manufacturing[3]	176.8[a]	− 1.1	+ 4.1
Dept. store sales in Chicago[4]	124.0[b]	− 9.5	+ 2.5
Consumer prices in Chicago[5]	130.8	− 0.1	+ 0.4
Construction contracts[6]	367.6	− 2.1	−12.7
Bank debits[7]	231.7	+ 5.1	+ 1.4
Farm prices[8]	82.0	+ 2.5	+ 2.5
Life insurance sales (ordinary)[9]	309.5	+ 1.5	− 3.0
Petroleum production[10]	120.4	+ 0.5	− 1.8

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Data for July, 1961, compared with June, 1961, and July, 1960. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Aug. 1961	Percentage change from July 1961	Percentage change from Aug. 1960
	Annual rate in billion $		
Personal income[1]	419.3[a]	− 0.5	+ 3.5
Manufacturing[1]			
Sales	379.2[a]	+ 1.3	+ 5.0
Inventories	54.0[a, b]	+ 0.9	− 1.8
New construction activity[1]			
Private residential	25.4[c]	− 0.8	+ 4.4
Private nonresidential	19.3[c]	− 0.1	+ 5.4
Total public	20.5[c]	+ 3.8	+ 3.5
Foreign trade[1]			
Merchandise exports	19.6[d]	− 3.6	− 3.6
Merchandise imports	15.2[d]	+ 3.9	+10.3
Excess of exports	4.4[d]	−22.9	−32.8
Consumer credit outstanding[2]			
Total credit	54.9[b]	+ 0.4	+ 1.8
Instalment credit	42.6[b]	+ 0.4	+ 1.5
Business loans[2]	35.8[b]	+ 0.7	− 1.7
Cash farm income[3]	32.6[d]	+10.9	− 0.9
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	113[a, e]	+ 0.9	+ 4.6
Durable manufactures	108[a, e]	+ 0.9	+ 3.8
Nondurable manufactures	119[a, e]	0.0	+ 3.5
Minerals	99[a, e]	+ 0.1	+ 0.1
Manufacturing employment[4]			
Production workers	97	− 0.2	− 2.7
Factory worker earnings[4]			
Average hours worked	101	+ 0.3	+ 0.8
Average hourly earnings	176	− 0.4	+ 3.1
Average weekly earnings	177	− 0.2	+ 3.9
Construction contracts[5]	311	+ 0.4	+ 7.5
Department store sales[2]	150[a]	− 0.7	+ 4.2
Consumer price index[4]	128	− 0.1	+ 1.1
Wholesale prices[4]			
All commodities	119	+ 0.3	− 0.2
Farm products	89	+ 2.0	+ 2.5
Foods	108	+ 0.7	+ 0.4
Other	127	0.0	− 0.6
Farm prices[3]			
Received by farmers	89	+ 2.3	+ 3.5
Paid by farmers	120	0.0	+ 0.8
Parity ratio	80[f]	+ 1.3	+ 1.3

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for July, 1961, compared with June, 1961, and July, 1960. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961 Sept. 23	1961 Sept. 16	1961 Sept. 9	1961 Sept. 2	1961 Aug. 26	1960 Sept. 24
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,443	1,462	1,441	1,381	1,349	1,391
Electric power by utilities mil. of kw-hr	15,025	15,869	15,838	16,214	15,491	14,556
Motor vehicles (Wards) number in thous.	91	82	102	115	83	140
Petroleum (daily avg.) thous. bbl.	7,145	7,111	7,162	7,051	7,054	6,877
Steel 1947-49 = 100	123	118	118	118	117	90
Freight carloadings thous. of cars	606	594	513	599	592	618
Department store sales 1947-49 = 100	154	150	129	154	152	148
Commodity prices, wholesale:						
All commodities 1947-49 = 100	118.6	118.7	118.7	118.8	118.9	119.2[a]
Other than farm products and foods 1947-49 = 100	127.2	127.3	127.4	127.5	127.4	127.9[a]
22 commodities 1947-49 = 100	84.4	85.1	85.1	84.9	85.0	83.6
Finance:						
Business loans mil. of dol.	31,937	31,728	31,548	31,476	31,498	31,770
Failures, industrial and commercial number	337	292	275	321	352	321

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for September, 1960.

RECENT ECONOMIC CHANGES

Corporate Profits Up

Corporate profits in the second quarter rose to an annual rate of $45.5 billion, an increase of $5.5 billion over the cyclical low of the first quarter. The second-quarter rate of corporate profits came close to the rate of the second quarter of 1960 but was below the $47.5 billion cyclical peak reached in the first quarter of that year.

Roughly two-thirds of the advance in corporate profits from the first quarter occurred in manufacturing, as sales and profits margins rose in a number of industries with the upward turn of the business cycle. Earnings of automobile manufacturers showed marked improvement from the low winter quarter, and profits in several other durable goods lines increased substantially.

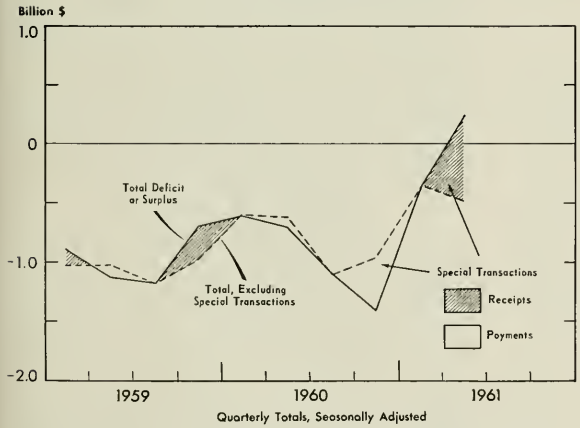
This increase in corporate profits contributed to a rise in national income for the second quarter to an estimated $426 billion. This is an all-time record annual rate, $14 billion above the first quarter, and $7 billion higher than the previous peak of $419 billion reached in mid-1960.

Balance of Payments Turns Favorable

The balance of international payments for the second quarter of 1961 showed an excess of receipts over payments of about $90 million, as shown in the accompanying chart. This favorable balance was the result of advance repayments of postwar loans by Germany, the Netherlands, and the Philippines, amounting to nearly $650 million, and advance receipts of $75 million from amortization and interest due in the third quarter.

If these advance repayments and receipts were omitted, total payments would have exceeded receipts by more than $600 million. The major factor in the increase in net payments in the second quarter was a decline in the trade balance because of lower exports. Most of this decline was due to transitory factors, particularly the postponement of cotton shipments pending higher export subsidies in the current crop year.

BALANCE ON U.S. INTERNATIONAL TRANSACTIONS[a]



[a] Measured by changes in gold and convertible currencies held by U.S. monetary authorities and changes in U.S. liquid liabilities.
Source: U.S. Department of Commerce, *Survey of Current Business*, September, 1961, p. 7.

Net outflows of American capital declined by about $50 million from the first to the second quarter of this year. Most important was the drop in the outflow of funds for short-term investments, which had been exceptionally high in the three preceding quarters. Direct investments also were less than in the previous quarter, declining some $46 million.

During the second quarter, holdings of gold and convertible currencies by United States monetary authorities increased by $330 million. However, this increase was partly offset by a $240 million rise in our liquid liabilities to foreigners, which are principally in the form of foreign deposits in American banks and foreign holdings of short-term United States government securities.

Plant and Equipment Investment Increases

The seasonally adjusted annual rate of business investment in new plant and equipment was at a cyclical low of $33.5 billion during the second quarter. This was $300 million below the rate anticipated in the June forecast. Such investment is now expected to rise to $34.8 billion in the third quarter and to $35.9 billion in the fourth quarter, according to the SEC and the Department of Commerce. These latter rates reflect increases of $200 million and $400 million respectively from the previous forecast. Total capital expenditures for 1961 are expected to amount to $34.5 billion, 3 percent below those reported for 1960 and unchanged from the total anticipated in the March and June surveys.

Manufacturing firms now expect to spend about 5 percent less in 1961 than in 1960. Nondurable goods industries have programmed a 3 percent rise in outlays, while durable goods companies show a decline of 12 percent. Railroads anticipate a decline to a level almost 40 percent below last year. Other major groups expect that their 1961 investments will be about the same as 1960.

Except for railroads, all major groups expect to raise their outlays in the fourth quarter over the early part of the year. Sharp increases, ranging from 8 percent to 13 percent from recent recession lows, are indicated by nondurable goods manufacturing companies, commercial firms, and public utilities.

Housing Starts

Construction was begun on 129,200 housing units in August, 1961, compared with 127,900 in July and 135,100 in August, 1960, the Department of Commerce reports. However, the rise from July to August was somewhat below the normal increase between these two months.

Private housing starts totaled 126,100 units in August, up 1 percent from the revised July total of 124,700 and 3 percent below the 130,300 units started in August, 1960. On a seasonally adjusted basis, August private housing starts were at an annual rate of 1,317,000 units, 2 percent below the 1,338,000 units in July. Sectionally, housing starts were down in the West and the Northwest and were higher in the North Central region and in the South.

Building permits covering 108,780 new privately owned housing units were issued in

August, 1961. This represented a seasonally adjusted annual rate of 1,104,000 units, slightly above the July, 1961, seasonally adjusted annual rate of 1,064,000 units.

Personal Income Levels Off

Personal income in August was at a seasonally adjusted annual rate of $419.5 billion, up 4 percent from a year ago. However, this was $2 billion below July, which had included a special insurance dividend payment to veterans.

Most of the advance in August came from increased wages and salaries, up a half-billion dollars from July. This payroll increase came mainly from a 1 percent gain in the nonmanufacturing industries. For the first time since the March upturn, factory payrolls did not advance. Chiefly responsible was the sharp decline in transportation equipment payrolls as the annual changeover in automobile models caused the usual temporary layoffs in auto plants. Apart from the large drop in transfer payments, personal income from sources other than wages and salaries was little changed in August.

Retail Sales

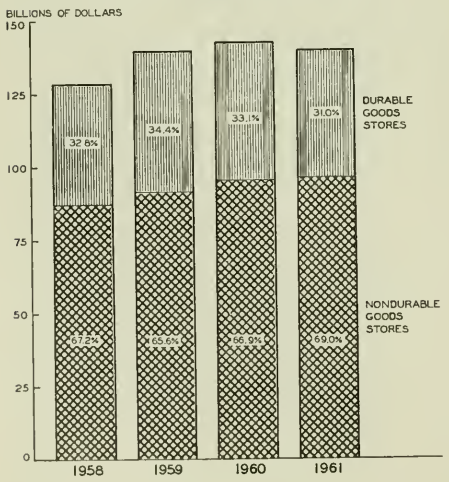
Total sales of all retail stores in August were $18.3 billion, virtually unchanged from July after adjustment for seasonal variations and trading day differences.

August sales in most individual lines of trade were also close to July. Average monthly sales in this period were about the same as in the spring quarter, with higher sales of nondurable goods offsetting a reduction in durables.

Compared with August, 1960, sales of the food group rose 4 percent and those of the general merchandise group were up 5 percent. Sales of all other major groups except gasoline service stations, which rose 4 percent, either stayed the same or showed slight declines from the previous year. Sales of the furniture and appliance group were off 2 percent, the apparel group stayed the same, and eating and drinking places reported a decrease of 1 percent. The biggest decline came in the automotive group, down 7 percent from the previous year.

As illustrated in the chart, total sales of all retail stores for the first eight months of 1961 amounted to $139.9 billion, 2 percent less than sales during the same period in 1960. Nondurable sales rose 1 percent to $96.5 billion, whereas sales of durables declined 8 percent to $43.4 billion.

SALES OF ALL RETAIL STORES
First Eight Months, 1958 to 1961



Source: U.S. Department of Commerce.

Manufacturing Abroad by U.S. Companies

Sales of goods manufactured abroad by the foreign subsidiaries and branches of United States companies amounted to nearly $24 billion in 1960, according to the Department of Commerce. This was a gain of about 12 percent over the previous year, and over $5 billion more than sales in 1957, the first year for which such data were available.

Output of American companies in Europe accounted for 60 percent of the increase in sales of the foreign plants since 1957 and amounted to $9.3 billion in 1960. Sales in Canada have risen much less since 1957, and were up only 2 percent above the 1959 level, reflecting the lower level of economic activity in that country. Since 1957, production by American-owned manufacturing plants in Latin America increased 14 percent to $3.2 billion in 1960.

Expanded output of transportation equipment accounted for 40 percent of the $2.5 billion rise in sales of the foreign plants, with most of the increase centered in Europe and Latin America. Substantial expansion was also reported in the machinery-producing industries and in chemicals. In Europe, food industry sales were up $140 million, or nearly 20 percent, over the previous year, while primary and fabricated metal industry sales rose $120 million, up more than 25 percent over 1959.

Increase in Corporation Working Capital

The net working capital of United States corporations, excluding banks and insurance companies, increased a record $3.6 billion during the second quarter of 1961 to a total of $137.9 billion. The increase reflected a $4.8 billion rise in current assets offset in part by a $1.2 billion increase in current liabilities.

In addition to the gain in working capital during the second quarter, corporations invested $7.5 billion in plant and equipment and $200 million in other assets. To finance this $11.3 billion of corporate expansion, corporations obtained 70 percent from internal sources, such as retained earnings and depreciation accruals, 11.5 percent from sale of new stocks, and 18.6 percent from new bonds and long-term borrowing. The proportion obtained from external sources was higher than in recent quarters.

The Uninvited Guest

(Continued from page 2)

seem to be in the national interest. (In view of the present competitive position of the steel industry, a price increase would hardly be in its best interests, either.) It does not seem unwarranted to bring this to the attention of the steel companies, particularly since it is suggested that this might serve as a talking point with the union when new wage demands are negotiated.

To be sure, three is a crowd, even among monopolies. The fact is, however, that the economic system is supposed to operate for the benefit of everybody, not just unions or management. It is only proper that the people, through their government, be concerned in such decisions.

RF

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

College Plans of High School Seniors

Almost half of all nonfarm high school seniors, but only about a third of farm seniors, reported definite plans in October, 1960, to attend college in 1961. Over two-thirds of students from high-income families ($7,500 or more), but only about a fourth of students from low-income families (less than $3,000), had definite plans to attend college. Economic reasons for not attending college were cited more frequently by farm than by nonfarm high school seniors.

About 25 percent of the boys who planned to attend college named engineering as their major, while 22 percent of the girls designated education as their major field of study. Over a fifth of the high school seniors who planned to attend college had not yet decided on a major field, according to the United States Bureau of the Census.

Of those high school seniors who had no definite college plans, economic reasons were given by a large proportion. "Lack of money" was specifically reported by 28 percent of this group.

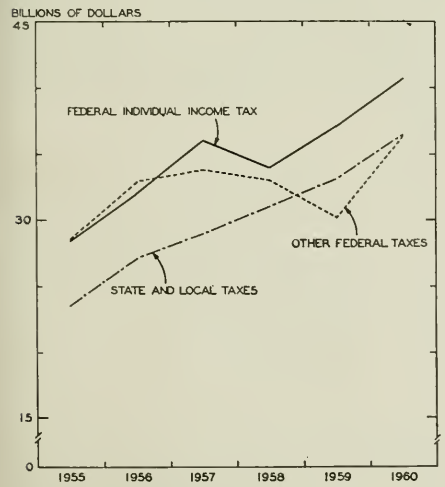
Governments' Revenue and Debt Increase

Taxes collected by all governments in the United States — federal, state, and local — in their fiscal years that ended during 1960 amounted to $113.4 billion, as compared with the 1959 total of $99.6 billion. Tax revenue of state and local governments was up 12.5 percent to $36.4 billion in fiscal 1960, compared with $32.4 billion the previous year. As shown in the accompanying chart, federal tax revenue also rose, from $67.3 billion in fiscal 1959 to $77.0 billion in fiscal 1960.

Taking account of all revenue sources, governmental revenue in fiscal 1960 amounted to $154.4 billion. This sum was $20.5 billion more than the 1959 figure of $133.9 billion. The 1960 total was 40 percent above the figures for 1955, as the chart indicates.

Despite the gain in taxes and other revenue, the total indebtedness of governments increased $7.2 billion during the 1960 fiscal year to $356.1 billion. The federal public debt amounted to $286.3 billion of this total.

FEDERAL, STATE, AND LOCAL TAX REVENUE, 1955 TO 1960



Source: U.S. Bureau of the Census.

New Printing Method

A new method of pressureless printing has been developed by Stanford Research Institute's graphic sciences laboratory at Menlo Park, California, according to *Business Week*.

The process, developed for the Electrostatic Printing Corporation of America, is considered promising for printing on a wide variety of surfaces, ranging from low-grade newsprint to objects (such as bottles) that would not stand up under the physical pressure applied in conventional printing. The image is fixed to the surface by heat treatment. Image quality is virtually the same, whatever the printed surface. An electrostatic printer costs only half as much as a conventional printing press and should provide better control of the printing process.

School Enrollment Projections

School enrollment in 1980 could be as high as 75 million but will probably increase only to 62 million, according to projections announced by the United States Bureau of the Census. This compares with a present enrollment of a little over 46 million.

On the basis of an assumed continuation of recent levels of fertility and enrollment rates, the projected school enrollment of 62 million in 1980 would include 41 million in elementary schools, nearly 15 million in high schools, and more than 6 million in colleges. This compares with an estimated 46.2 million total enrollment at the beginning of the 1961-62 school year, of which nearly 32.5 million were in elementary grades, about 10.3 million in high school, and 3.5 million in college or professional school.

New Business Cycle Data

The Bureau of the Census will make available to the general public this month for the first time a new publication, *Monthly Report on Current Business Cycle Developments*. This report has been going confidentially to top government officials for the past four years.

The new publication will contain a series of tables showing the movements over the business cycle of about 350 economic indicators. Some 70 of these are considered to be leading indicators that tend to turn up or down before business as a whole. The data will be prepared on Census Bureau computers in the five days immediately preceding publication, to be about the 20th of each month. No interpretation or conclusions with respect to what the data indicate at the time will be offered by the bureau.

This approach to business cycle forecasting was developed by the National Bureau of Economic Research and has been used by other private forecasting services. The Census Bureau publication will make a larger number of indicator-series available at an earlier date each month than forecasters have had before. It can be obtained from the office of the Chief Economic Statistician, United States Bureau of the Census.

THE ILLINOIS INDUSTRIAL DEVELOPMENT ACT

JOSEPH D. PHILLIPS, Research Professor

On August 10 of this year Governor Otto Kerner signed into law a group of bills designed to stimulate industrial development in areas of Illinois suffering from chronic unemployment. By this act Illinois joined a lengthening list of states that have adopted measures to provide financial and other assistance to local community industrial development programs.

The Illinois legislation was drafted by a committee appointed in the spring of 1961 by Governor Kerner. The chairman of the committee, Donald R. Bonniwell, general partner in Cruttenden, Podesta and Company, Chicago investment firm, had a leading role for ten years in the Puerto Rican program of industrial development.

The Problem in Illinois

The need for action to encourage industrial development in certain areas of Illinois has been accepted by the government of the State for some time. Legislation was adopted some years ago permitting local communities to issue bonds for the purpose of building industrial plants that would be rented on terms designed to attract business to these communities. In addition, a Division of Industrial Planning and Development was established in the state government to publicize the advantages to industrial firms of location in Illinois and to assist local communities, particularly those suffering economic decline, in their efforts to attract new plants to their environs.

However, there has been considerable doubt as to the constitutionality of the municipal financing measure. It has never been tested in the courts. Moreover, many communities could not sell on favorable terms the small bond issues required. In these circumstances, the limited powers of the State Division of Industrial Planning and Development were particularly ineffective.

Meantime, the problem of distressed areas has gone unabated. A number of communities, particularly in the southern part of the State, have suffered long-term economic decline as a result of reduced demand for coal and technological unemployment of miners. Others have had their economic base wiped out over a shorter period as a result of the closing down of the major plant in the area. Still others have experienced periodic large-scale unemployment because their one industry was particularly vulnerable to cyclical fluctuations in demand. In varying degrees these conditions have produced chronic unemployment, extensive losses by merchants located in the area, and declining tax revenues.

Approaches to the Problem

One "solution" to the problem has been to do nothing about it. Gradually, workers move to other parts of the country where opportunities appear to be greater. Some capital is transferred, other capital is lost, and new capital avoids the declining community. In some cases this may be the only feasible solution. However, it is a very painful one. People are reluctant to move from areas in which they have grown up and have family ties. Many workers have insufficient resources to cover the expense of a move to another area where job prospects may be generally better, but specifically quite uncertain. Some assistance in the transition may be offered, as the recently adopted federal Area Development Act attempts in part to do, in the form of retraining programs, subsistence payments for workers undergoing job retraining, and payments to assist those moving to areas where jobs are available. However, present legislation provides very little in the way of funds for this kind of aid, and there is not much political support for such programs.

The principal approach to the problem of long-term local economic decline has been to encourage the location of new industrial plants in the area by advertising its advantages as an industrial site, by directly soliciting industrial firms, and by offering financial inducements, primarily in the form of plants made available at low rentals. A number of states have enacted legislation that provides state financial assistance in the form of loans or grants to local community groups engaged in constructing low-rent plants for industrial firms that have agreed to move into their respective areas. The Pennsylvania Industrial Development Authority makes second-mortgage loans to community nonprofit corporations in labor surplus areas for industrial building purposes. These cover up to 30 percent of the total cost, provided the local group invests equity capital equal to 20 percent of the cost, arranges for private institutions to provide the rest, and secures a long-term lease or purchase agreement with a responsible industrial firm to equip, occupy, and operate the facility. The authority has a revolving capital fund of $8 million, appropriated by the legislature. It cannot borrow, and it cannot build or own industrial buildings.

Similar measures have been adopted by a number of other states. In fact, the general procedure is used in various parts of the world. For example, the Northern Ireland Development Council in conjunction with the Ministry of Commerce attempts to overcome the problem of unemployment there by attracting new and expanding firms with financial and other inducements, including leases on modern factories at concession rents.

The competition for industry from states offering special inducements is one reason that other states feel increasingly the need to adopt similar measures. Governor Kerner referred to "the present highly competitive situation" in industrial development and to "the present industrial plant 'buyers' market'" when he announced the appointment of a committee to develop legislation of this type. Undoubtedly this competition for new plants by state and local authorities results in some duplication of effort and some movement of industry that would not otherwise take place.

What the Act Provides

The Illinois Industrial Development Act differs in important respects from the legislation of other states. It creates an Industrial Development Authority that will build and own industrial plants in areas of critical labor surplus with funds that it obtains by borrowing on the strength of the rentals to be paid by the industrial firms leasing these plants. Thus the act does not make state assistance contingent upon partial financing by local governmental or nonprofit agencies and by private banking institutions, as do the industrial development acts of other states.

There were two principal reasons for this provision: (1) Many of the areas in greatest need of assistance are in no position to provide funds for the construction of plants. Their tax resources are already strained to the limit of the law, and private donors are few and greatly restricted in their ability to contribute. However, some

of these areas are in a position to contribute land to the authority for the project, and it is expected that the authority will attempt to secure donations of land with the improvements required for industrial operations. (2) The borrowing power of the authority is greatly enhanced by ownership of the plant and the land on which it is situated and by the undiluted right to the rental income from it. It is expected that the authority will be able to borrow funds at very favorable rates through the sale of its bonds and through the issuance of other obligations. This will reduce the costs that must be covered by rental income and thereby make possible more attractive rentals.

The act differs from those of some states in not providing for legislative appropriations as a major source of funds for industrial development. It does provide for an initial appropriation of $500,000 to the Illinois Industrial Development Fund, which serves as a basic guarantee of the obligations issued by the authority. The volume of obligations that can be issued is limited to ten times the amount in this fund. However, this is just the sweetening; the funds used for constructing industrial plants will be obtained by borrowing in the open market, and the costs will be met out of rentals. No pledge of the state's credit is to be offered when bonds issued by the authority are sold. Nor does the authority have any power to levy taxes.

Other unusual features of the act are the provisions it contains for additions to the revenues of local authorities and the State. Local property taxes on the plant and land will be paid by the industrial company leasing the property. This will tend to raise the tax revenues of the areas in which the plants are located. The State will benefit from payments into its general funds whenever rental revenues exceed costs and whenever the authority sells a plant at the end of the lease period.

How the Act Will Work

Detailed procedures to be followed in the administration of the act have not yet been worked out, but it is possible to indicate the general pattern that will be followed. The first step will be to find an industrial corporation that can be induced to lease a plant, built to its specifications, in the area of critical labor surplus seeking assistance. Local government officials, chamber of commerce representatives, or other local groups are expected to take the initiative in the search for an industrial prospect. The Executive Director of the Board of Economic Development will assist in the effort and may initiate the search in some cases. Officers of the Development Authority will no doubt participate in the discussions at an early stage, since they will be in the best position to provide estimates of rental charges.

In most cases local authorities or a nonprofit private organization will donate the land on which the plant is to be built and make whatever improvements are required in the way of public utilities and access roads, although the act gives the authority power to buy the land and furnish the improvements where necessary. It should be noted that donations of land and provision of public services by local authorities or groups will reduce the costs that must be covered by plant rentals and thus provide greater inducement to industrial corporations to locate in the area.

When terms of the lease have been arrived at, the Development Authority will enter into a lease agreement with the industrial firm for a period sufficient to cover the costs of the plant, including interest on the funds borrowed by the authority and an allowance for its general expenses. The authority will then contract with a construction firm to build the plant according to the leasee's specifications. The rental payments will be used to service the loans obtained by the authority. At the end of the lease period, when the full costs will have been paid off, the authority will enter into a new lease agreement with the occupant or sell the plant to the firm, in either case on terms that will constitute strong inducement to continued operation. If the firm decides not to take advantage of these terms or if it breaks its lease agreement, the authority will attempt to lease or sell the plant to another industrial enterprise.

Any return over costs obtained by the authority from renewal of the lease or sale of the plant and site will go into the general revenue fund of the State, except as funds may be needed to reimburse the Industrial Development Fund for prior disbursements that have not been covered by previous sales and rental proceeds. The local community will benefit from the jobs provided by the plant and from the increased tax revenues.

Some Problems

Will the favorable rental terms on an industrial plant, constructed to the firm's requirements, provide sufficient inducement to bring industry into areas of critical labor surplus in Illinois? The experience of states that have employed this device as a means of encouraging industrial development suggests that it is a decisive factor in the location decisions of some firms. States that do not offer this type of assistance may be at a disadvantage in competition for new industrial plants with states that do. Therefore, the act may be justified as a defensive measure, if for no other reason. Whether it will result in the desired volume of industrial expansion in areas that have been declining economically remains to be seen.

How will the act affect the distribution of plant location in Illinois? The authority is directed to withhold its assistance from any industrial project that would replace any industrial facility presently located within the State, unless it is convinced that the latter facility is otherwise likely to relocate outside the State. However, it is probable that areas eligible for assistance from the authority will attract some firms that, in the absence of the programs, would have located plants in other parts of Illinois. Some communities that have raised their own industrial development funds will find it difficult to offer industrial firms inducements comparable with the low rentals that communities with IIDA assistance will be able to offer.

However, it does not seem likely that areas of the State with no critical labor surplus will suffer significantly as a consequence of the program. Economic expansion in the depressed areas may spill over to some extent into the areas of greater economic activity. If the costs of public assistance in the areas of critical labor surplus can be reduced or kept below what they would be in the absence of industrial expansion, the rest of the State will benefit. Reduction of the tendency toward greater concentration of industrial activity in certain parts of the State would relieve some of the congestion that has become one of our major social problems.

All things considered, there is reason to anticipate favorable results from this legislation. It has much to recommend it over legislation adopted by other states for the same purpose. It does not create new taxing bodies or provide for tax exemptions. It takes advantage of lower interest costs on large bond issues. And it makes available expert supervision of the program, both initially and during the period of each lease.

LOCAL ILLINOIS DEVELOPMENTS

Public Aid Declines Slightly

The Illinois Public Aid Commission reports that the state's payments for public assistance increased $47.5 million, or 67 percent, during the fiscal biennium which ended July 1. The higher costs resulted from increased unemployment and discontinuance of unemployment benefits in several highly industrialized communities and in parts of southern Illinois during the latter half of 1960 and early 1961.

Both the number of recipients and the cost of public assistance in Illinois dropped slightly during July, 1961, as they had in the three preceding months. Despite these declines, however, the number on the rolls and the cost of the program were still considerably higher than in July, 1960.

The declines in general assistance were partly due to seasonal employment and partly to the transfer of children with unemployed parents to the aid to dependent children program. About 9,100 such children were transferred from general assistance in June in accordance with recent state and federal legislation which permits unemployed families to receive help through the federal aid to children program.

Port Facilities Improved

The international trade fairs and world marketing conferences held in Chicago continue to focus attention upon the importance of the port of Chicago as a connecting link between overseas markets and the Midwestern area of the United States. To handle expected increases in traffic on the Great Lakes, the St. Lawrence Seaway, and the Illinois-Mississippi Waterway, Chicago is making extensive harbor improvements.

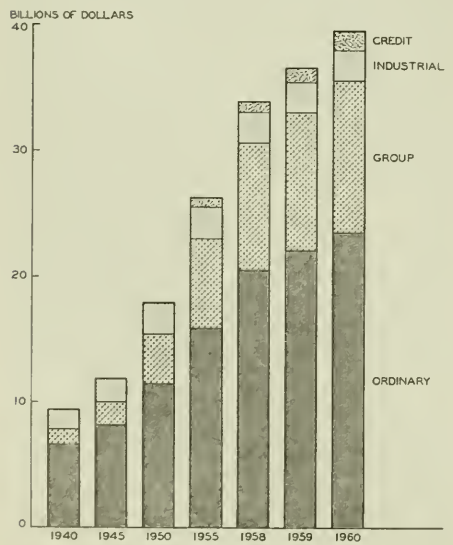
In the downtown harbor area, which includes the Chicago River and Navy Pier, improvements costing $10 million are nearing completion. Existing facilities at Navy Pier have been modernized, a new 2,300-foot dock and a warehouse have been built, and the harbor area is being dredged to a uniform depth of 27 feet. This will make it possible for Navy Pier to accommodate six average-sized ocean vessels at one time and will make it accessible to the largest ships capable of using the St. Lawrence Seaway.

Approximately 15 miles south of the Loop at Lake Calumet Harbor, the Chicago Regional Port District has made harbor improvements costing $24 million over the past five years and has recently accepted bids for new facilities costing another $24 million. These will include a 10-million-bushel grain elevator, three 500-foot wharves with cargo sheds, new warehouse facilities, and a boxing plant. Private construction includes a new 200-million-gallon bulk-liquid terminal and iron ore unloading and storage facilities.

In addition Congress has been asked to approve appropriations totaling several million dollars for dredging the Calumet Harbor from its depth of 21 feet to the full seaway depth of 27 feet and straightening the river channel that connects the harbor with Lake Michigan.

These improvements will expedite service in and out of Chicago and will permit year-round port operations, since commodities such as grain, bulk liquids, and scrap metal can be stored in harbor facilities during the fall and winter months, ready for overseas shipment when the St. Lawrence Seaway is opened in the spring.

LIFE INSURANCE IN FORCE



Source: Institute of Life Insurance.

Illinois Highway Construction

Illinois is making better-than-average progress on its portion of the National System of Interstate and Defense Highways. Almost 32 percent has been completed, compared with 26 percent for the nation as a whole. By July 1, Illinois was using 505 miles of the 1,586 miles which will be built in the State under the program.

The Illinois Department of Public Works and Buildings reports that 123 miles of interstate highways are now under construction in the State; engineering has been authorized for an additional 218 miles; right-of-ways have been acquired for 281 miles; and funds are still to be authorized for 458 miles. This department has also announced that the Illinois Division of Highways has received low bids totaling $16.8 million on 71 construction and related projects on the state's 1961 program. Largest of these projects were those involving construction and other work on Interstate Route 57 in Effingham County, for which the low bid was $3,325,000.

Life Insurance in Force

Illinois ranked fourth in the nation in life insurance ownership in 1960, as in other recent years. The Institute of Life Insurance reports that Illinois families owned slightly more than $39.5 billion of life insurance in 1960, compared with $36.6 billion in 1959 and $34.0 billion in 1958.

The record 1960 amount included $23.5 billion or 59.5 percent of the total in ordinary life insurance, $12.2 billion in group life insurance, $2.4 billion in industrial life insurance, and $1.4 billion in credit life insurance.

From 1959 to 1960 the greatest percentage gain was in credit life insurance, with an increase of 41 percent. During the same period, group life insurance increased 11 percent and ordinary life insurance 6 percent, whereas industrial life insurance decreased 1 percent.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

August, 1961

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$45,507[a]	1,377,105[a]	$402,541[a]		$20,256[a]	$15,538[a]
Percentage change from	July, 1961	+33.1	+0.0	−0.5	+1.5	+5.1	+8.4
	Aug., 1960	+25.7	+0.3	−0.0	+2	+1.4	+0.7
NORTHERN ILLINOIS							
Chicago		$32,645	983,155	$354,616		$18,736	$13,444
Percentage change from	July, 1961	+20.1	+5.7	−0.3	+1.4	+5.7	−10.3
	Aug., 1960	+57.0	+8.2	−1.0	+3	+1.5	+0.8
Aurora		$ 636	n.a.	$ 7,638		$ 78	$ 166
Percentage change from	July, 1961	−21.0		−0.8	+1.2	−0.3	+0.1
	Aug., 1960	−44.8		−12.2	−2	−7.3	+3.0
Elgin		$ 481	n.a.	$ 5,676		$ 53	$ 121
Percentage change from	July, 1961	−16.0		−1.0	n.a.	−2.4	+0.8
	Aug., 1960	−34.5		+1.7		+0.1	+1.0
Joliet		$ 766	n.a.	$10,055		$ 100	$ 111
Percentage change from	July, 1961	+20.0		−12.5	+.8	+0.0	−1.4
	Aug., 1960	+87.3		+3.0	−1	+3.2	+4.3
Kankakee		$ 94	n.a.	$ 5,154		n.a.	$ 57
Percentage change from	July, 1961	−0.0		−2.1	n.a.		−10.5
	Aug., 1960	−19.0		+9.0			−13.0
Rock Island-Moline		$ 960	31,221	$ 9,751		$ 110	$ 157
Percentage change from	July, 1961	−13.0	+12.1	−11.2	n.a.	−7.1	−0.1
	Aug., 1960	−80.7	+16.7	−7.1		−0.3	−20.0
Rockford		$ 745	57,471[c]	$17,721		$ 217	$ 220
Percentage change from	July, 1961	−38.0	+12.4	−0.7	+10[c]	+1.5	−4.0
	Aug., 1960	−42.2	+15.3	+8.0	−0[c]	+0.0	+5.1
CENTRAL ILLINOIS							
Bloomington		$ 234	13,438	$ 5,358		$ 90	$ 114
Percentage change from	July, 1961	−55.0	+17.5	−3.0	n.a.	−2.4	+3.0
	Aug., 1960	+8.3	+20.0	+5.8		+7.7	+8.5
Champaign-Urbana		$ 509	17,552	$ 7,723		$ 82	$ 112
Percentage change from	July, 1961	+64.2	+5.7	−10.9	n.a.	−11.5	−3.9
	Aug., 1960	−21.0	+11.8	+6.4		+4.7	−0.1
Danville		$ 108	17,304	$ 5,868		$ 55	$ 71
Percentage change from	July, 1961	+0.3	+14.1	−10.9	+10[c]	+4.2	−2.5
	Aug., 1960	−41.9	+9.5	+3.7	+3[c]	−0.3	+14.3
Decatur		$ 1,114	41,835	$10,389		$ 113	$ 122
Percentage change from	July, 1961	+54.7	+23.2	−11.5	+.8	−10.9	−2.1
	Aug., 1960	+69.3	+15.5	+0.4	−.6	−3.5	−2.7
Galesburg		$ 582	9,273	$ 3,828		n.a.	$ 45
Percentage change from	July, 1961	+40.6	+7.3	−18.1	n.a.		−4.4
	Aug., 1960	+318.7	−5.2	−8.7			−7.1
Peoria		$ 4,582	71,085[c]	$14,621		$ 240	$ 306
Percentage change from	July, 1961	+887.3	+18.7	−13.5	+.28	−3.0	+8.3
	Aug., 1960	+517.5	+7.0	−4.2	+.6	+3.5	+7.7
Quincy		$ 389	15,645	$ 4,947		$ 50	$ 63
Percentage change from	July, 1961	+109.1	+21.2	−11.2	n.a.	−4.1	−0.0
	Aug., 1960	+64.8	+14.9	+1.1		−4.3	−13.7
Springfield		$ 1,054	55,808[c]	$12,181		$ 140	$ 270
Percentage change from	July, 1961	+124.7	+35.8	−8.8	+.23[c]	−3.5	−22.3
	Aug., 1960	−23.5	+15.3	−0.0	+.4[c]	−3.0	+5.0
SOUTHERN ILLINOIS							
East St. Louis		$ 187	20,131	$ 7,705		$ 141	$ 72
Percentage change from	July, 1961	+150.2	+10.4	−12.1	n.a.	+8.0	+75.0
	Aug., 1960	+10.0	0.0	−10.2		−0.2	10.5
Alton		$ 220	28,708	$ 4,840		$ 45	$ 36
Percentage change from	July, 1961	+0.3	+20.0	−0.5	n.a.	−4.2	+4.8
	Aug., 1960	−42.0	+14.0	−0.5		−4.5	0.0
Belleville		$ 141	14,300	$ 4,460		n.a.	$ 52
Percentage change from	July, 1961	−47.4	+14.0	−14.8	n.a		1.0
	Aug., 1960	−92.5	+0.8	−1.8			11.7

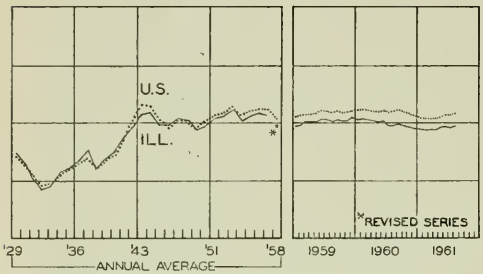
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for July, 1961. Comparisons relate to June, 1961, and July, 1960. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending August 18, 1961, and August 19, 1960.

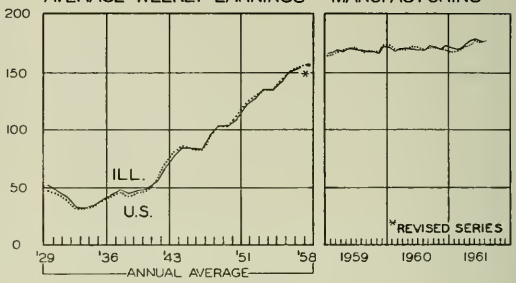
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

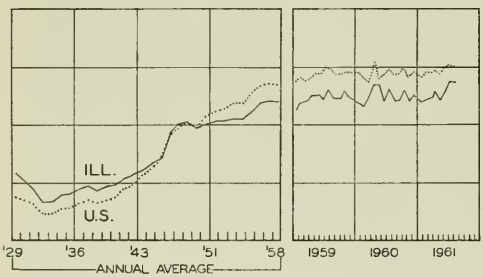
EMPLOYMENT MANUFACTURING



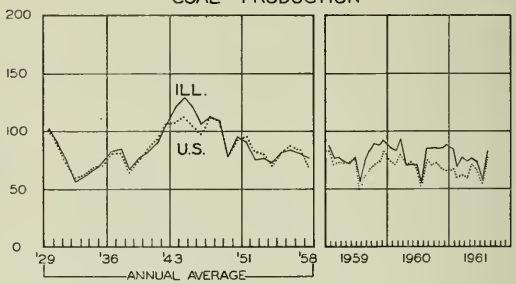
AVERAGE WEEKLY EARNINGS—MANUFACTURING



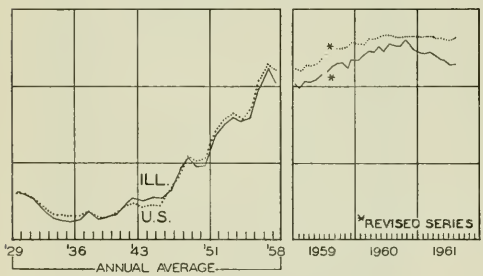
DEPARTMENT STORE SALES (ADJ.)



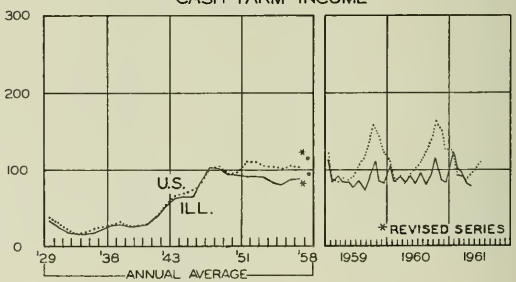
COAL PRODUCTION



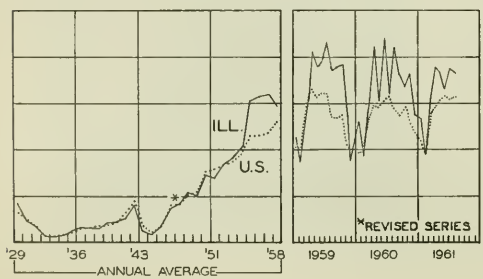
BUSINESS LOANS



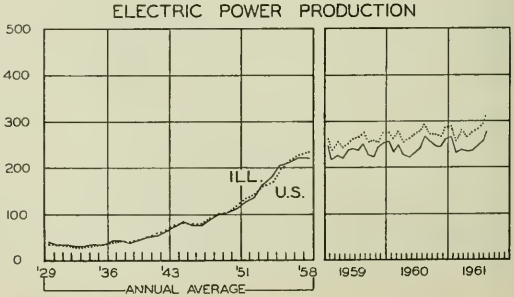
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

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HIGHLIGHTS OF BUSINESS IN OCTOBER

The pace of business expansion picked up a little in October. Regaining the percentage point lost in September, the index of industrial production rose to 113 percent of the 1957 average. Production of new passenger cars rose sharply to 557,000 units as strikes were settled and output of new models got into full swing, but fell short of the year-earlier month by 10 percent. Unemployment declined 151,000 to 3.9 million and employment rose 786,000 to 67.8 million, about normal for the month. As a result, the seasonally adjusted rate of unemployment failed to show the anticipated sharp decline, holding steady at 6.8 percent, close to the level that has prevailed for the past 11 months.

At least one recent indicator suggests that prospects for 1962 are bright. The latest McGraw-Hill survey of capital expenditure plans indicates that business now expects to spend $35.8 billion next year on new plant and equipment, 4 percent more than in 1961.

Construction Continues High

Preliminary estimates place the value of total new construction in October at $5.3 billion, 3 percent below the revised figure for September and 5 percent above October, 1960. The decline from September was about normal for this time of year.

Private construction expenditures in October amounted to $3.7 billion, 2 percent less than the preceding month, but 6 percent above October a year ago. Private nonfarm residential building accounted for $2.1 billion of the October total, reflecting the normal seasonal decline of roughly 2 percent. Spending on private nonresidential buildings increased slightly, but farm construction fell about 10 percent after allowance for seasonal influences. Public construction expenditures were down 5 percent from September, but were 5 percent above October, 1960. The seasonally adjusted annual rate for both private and public construction showed little change from September.

Inventories Rise Further

Inventories of manufacturing and trade firms rose $600 million in book value during September, bringing the seasonally adjusted total to $92.7 billion at the end of the month. Two-thirds of the increase was in manufacturing, primarily in durables and in the form of purchased materials. The rest of the increase in stocks was at the retail level, mostly at automotive dealers.

At the end of September, manufacturers' stocks amounted to a seasonally adjusted $54.4 billion, about 1 percent below their year-earlier level. Retail inventories at $24.7 billion were down nearly 2 percent from September, 1960, but wholesale stocks, which were unchanged from August at $13.6 billion, were 3 percent higher than the year-earlier date. The inventory rise during the third quarter amounted to $1.25 billion, compared with a $500 million increase in the second quarter.

Seasonally adjusted sales of manufacturing and trade firms were down $400 million to $62.1 billion in September, but were $1.3 billion above September, 1960. All of the decline from August occurred at the wholesale level and was shared equally by durables and nondurables. In retail trade improved sales by motor vehicle dealers and eating and drinking places were offset by reduced sales at food and apparel stores and at lumber and building material dealers. A small decline in manufacturers' sales of durables was attributable to the strike-affected motor vehicle industry and to building material suppliers. Nondurables manufacturers enjoyed an offsetting increase.

New orders received by manufacturers in September were up slightly from August and were more than $1 billion above those of September, 1960.

Consumer Debt Down

The reluctance of consumers to expand their short- and intermediate-term debt in September continued to restrain the expected advance in consumer expenditures. A cutback of $135 million, after seasonal adjustment, in outstanding automobile paper, the tenth consecutive monthly contraction, was the principal element in a net decrease of $75 million in instalment debt, although there was also an adjusted decline in other consumer goods paper of $32 million. Partially offsetting these decreases were a $90 million expansion in personal loans and a small increase in repair and modernization loans. At the end of September, total instalment debt stood at $42.6 billion, about the same as a year earlier.

Noninstalment debt was up a seasonally adjusted $41 million at the end of September, mainly as a result of a rise in single-payment loans and in service credit. Noninstalment debt amounted to $12.3 billion at the end of September, about $570 million above the year-earlier total.

LABOR COURTS IN WESTERN EUROPE · · By William H. McPherson · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

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An Ideal Union

In the last few years, the international economic position of the United States has deteriorated, partly because of the strong recovery of wartorn allies as well as foes, and partly because of the formation of economic blocs to gain advantage in international trade. Domestically, these developments have so far had relatively little impact, because international trade constitutes a relatively small proportion of the total economic activity of this country. Nevertheless, the effects are becoming more apparent and may be bringing this country to a turning point in our economic history.

This is even more likely to be the case because the negotiations that were begun this month for Britain's entry into the European Common Market show every indication of being successful. If so, the expanded Common Market will result in an economic area which is larger, and in some ways stronger, than the United States. This development will also undoubtedly give impetus to the entry of other Western European countries into this bloc.

In many respects, such a development is most welcome and serves to create a formidable new power on the side of the West. From a domestic economic point of view, however, the development is not so favorable, serving to leave the United States out in a world which seems to be getting colder all the time.

A World of Blocs

As yet, the effects of these developments are not readily apparent, partly because international trade constitutes a relatively small proportion of the total economic activity of this country, unlike the situation in most other countries. Nevertheless, it is clear that economically we are likely to be hurt. With trade barriers removed among the members of the Common Market, American manufacturers will be competing for sales in that Market under the handicaps of tariff barriers against countries not so handicapped. Of course, attempts will be made to reduce tariffs, but for once it is not clear that the other side will be particularly anxious to do so.

As it is, we appear to be heading for another international payments crisis. The balance of payments has recently been in our favor only because of advance repayments of postwar loans. The outlook for the immediate future is for a negative balance of payments and further gold outflows, which will also serve to weaken our international bargaining power.

In a world of blocs, even a country as large as this can be at a disadvantage. For this country to survive and prosper it is clear that ever expanding markets are needed to take advantage fully of our growing productive capacity and, on the other hand, of our growing need for raw materials. The most promising means of achieving this goal, and one which would be of great mutual advantage, is to merge with our neighbor to the north. Ideally, political merger would be most appropriate, though such an event would seem too much to expect immediately. Having a common language and common customs (with the exception of Quebec), virtually a common tradition, and practically a common currency, such a merger would seem eminently sensible.

The two countries also have a common culture and common interests. Though Canadians are sensitive about American influence, they are still most receptive to it. For example, some years ago, while the people of Hamilton, Ontario, were agitated at American influence over Canadian subsidiaries, they were signing a petition asking the city government to install a larger master aerial to receive signals from the Buffalo TV stations.

Complementarity

Economic integration would clearly work to the benefit of both of these two countries. Canada has immense natural resources but a relatively small population and lacks capital, with the result that Canada's manufacturers have been unable to operate on the larger, more efficient scale of American firms and business activity has been depressed. On the other hand, the United States has the capital, the technology, and the population for efficient large-scale operations and is using up resources at a tremendous rate.

Furthermore, the foreign trade of the two countries complements each other neatly. Each is the other's best customer. In 1960, the United States took more than half of Canada's merchandise exports and also accounted for two-thirds of Canada's imports. Canada accounted for one-fifth of both the total merchandise exports and the merchandise imports of this country. In addition, most of Canada's exports, and most of our imports, are raw materials, while most of Canada's imports and most of our exports are machinery and manufactured goods.

Both countries will be hit by the expansion of the Common Market, the United States as mentioned above, and Canada because Britain has been its second-best customer. In 1960, for example, 17 percent of its merchandise export trade and 11 percent of its import trade were with Britain. Economic union between the two countries would mitigate this blow. Removing trade barriers would create greatly expanded markets for Canadian manufacturers, provide major new opportunities for American investment funds and technological know-how, and promote more efficient operations in both countries. The result could be another boom almost similar to the tremendous growth that took place in this country during the middle of the last century.

To be sure, some individual businesses would be hurt by economic integration. Many more, however, would gain substantially, as would the people of both countries. Over-all, there is no doubt that immense benefits would be obtained, not only economically but also in possibly paving the way for a long-overdue marriage! RF

HOUSEHOLD FURNITURE

Until about a century ago, some American household furniture was the handicraft of skilled cabinetmakers working with only a few hand tools and a bench. More often, it was the crude product of the head of the household. These types of production gradually gave way after 1850 to manufacture in efficient power-equipped factories emphasizing specialization of labor. Shipments rose from $75 million to $240 million between 1869 and 1914. Since then, the industry has expanded at an even greater rate. In 1960 there were some 6,500 manufacturers of household furniture shipping a product valued in excess of $3 billion.

Although the industry has grown considerably, furniture manufacture remains a comparatively small business. Only about 10 percent of the nation's producers post shipments valued at more than $1 million a year, and nearly 60 percent of them have a yearly volume of $200,000 or less. The built-in factor of bulkiness of product has generally worked against bigness, making distribution costly and tending to keep plants and markets small, localized, and specialized. Furthermore, because of diverse styles and lines developed in the past half-century, wood furniture production has not been generally adaptable to economical mass production processes. Consequently, few firms have been able to provide full lines to national markets or to acquire brand name superiority.

Production in Illinois

The foundation for the later rise of Illinois as a principal household furniture center was laid in the first half of the nineteenth century. In the main, this early development was connected with the population influx into the State, which brought both skilled furniture makers and a demand for furniture. Because of already available technology, many Illinois establishments were opened from the start as factories with machinery.

The dynamic increase in the state's population, the strategic geographic location, the availability of good-quality domestic woods, the development of middle-price lines suitable for "mass" markets, and the development of semi-assembly line processes were among the factors that provided the stimulus for large-scale production in the late nineteenth century.

Illinois, which ranked second to New York in 1939, today is the fourth largest producer of household furniture. This lower ranking stems from the fact that output by the state's plants, though increasing during the post-war period, has not expanded as rapidly as output in North Carolina and Virginia, the nation's present leading furniture centers.

Nearly 370 establishments were operating in Illinois during 1958, employing 17,000 persons and shipping a product valued at $250 million. The major share, or nearly 36 percent, of Illinois shipments falls into the general classification of metal household furniture. Wood furniture products account for nearly 28 percent and upholstered articles for 22 percent, the remaining shipments taking the form of mattresses, bedding, and miscellaneous furniture. In the manufacture of specific products, Illinois is the leading producer of metal household dining and dinette furniture, second in electronics cabinets, third in metal kitchen furniture and bedsprings, and fourth in innerspring mattresses.

The industry is chiefly centered in the six-county Chicago metropolitan district, which accounts for more than four-fifths of total Illinois plants and shipments. Production outside the Chicago area emanates primarily from the 10 plants in DeKalb County and the 13 establishments in Winnebago County.

Furniture Marketing

About 80 percent of national output is sold directly to retail outlets, with the remaining 20 percent moving through approximately 3,000 wholesale and jobbing firms. Of the furniture sold at retail, an estimated 70 percent is handled by the nation's 36,000 furniture stores. The remaining 30 percent reaches the public primarily through 2,000 department stores and 2,500 mail-order houses.

With the expansion of the industry, its plants, and sales territories, furniture producers have developed a central marketing system during the past half-century as a substitute for the older cabinetmaker-retailer relationship. Benefiting both manufacturer and retailer, these approximately 20 national and regional markets afford the producer a means of exhibiting a bulky, unstandardized product to an optimum number of customers, while giving the latter the opportunity to examine numerous lines and styles.

The nation's most important market is in Chicago, which accounts for more than half of all orders booked. Other major centers are at High Point, North Carolina, New York City, Dallas, Los Angeles, and Grand Rapids.

Trends and Problems

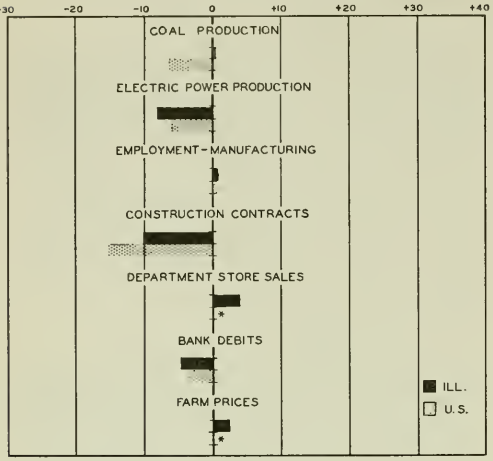
One of the important postwar trends in the industry has been the continuing shift of production into southern states, particularly North Carolina and Virginia, which today have supplanted New York and Illinois as the top furniture states. Between 1947 and 1958, the value of shipments from southern states increased nearly 100 percent, more than twice the rate of increase of other states.

Because of the highly competitive nature of the industry, there has been a trend toward greater variation in styles of Modern lines as a means of stimulating new markets. Problems of costly inventories and risks of obsolescence while in storage have arisen as a consequence, particularly for larger manufacturers. As a solution, a growing segment of the industry has turned to the production of so-called "correlated groups." These pieces of similar design and finish are aimed at satisfying two or more functions in one or more rooms. With such products, the producer has been able to cut down widely varied stocks and still fit the needs of postwar homes.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS[a]

Percentage changes, August, 1961, to September, 1961



[a] Not seasonally adjusted. * No change.

ILLINOIS BUSINESS INDEXES

Item	Sept. 1961 (1947-49 =100)	Percentage change from Aug. 1961	Percentage change from Sept. 1960
Electric power[1]	257.3	− 8.1	+1.1
Coal production[2]	82.4	+ 0.1	−3.8
Employment—manufacturing[3]	97.8	+ 0.9	−1.6
Weekly earnings—manufacturing[3]	176.2[a]	− 0.2	+3.9
Dept. store sales in Chicago[4]	125.0[b]	+ 0.8	+3.3
Consumer prices in Chicago[5]	131.1	+ 0.2	+0.5
Construction contracts[6]	330.5	−10.1	−8.5
Bank debits[7]	220.8	− 4.7	−1.2
Farm prices[8]	82.0	0.0	+2.5
Life insurance sales (ordinary)[9]	300.6	− 2.9	+3.0
Petroleum production[10]	117.9	− 2.1	−0.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Data for August, 1961, compared with July, 1961, and August, 1960. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Sept. 1961	Percentage change from Aug. 1961	Percentage change from Sept. 1960
	Annual rate in billion $		
Personal income[1]	420.2[a]	+ 0.2	+ 3.6
Manufacturing[1]			
Sales	378.0[a]	0.0	+ 4.7
Inventories	54.4[a, b]	+ 0.7	− 0.5
New construction activity[1]			
Private residential	25.1[c]	− 0.8	+ 5.9
Private nonresidential	19.5[c]	+ 1.0	+ 4.7
Total public	20.6[c]	+ 2.6	+ 4.5
Foreign trade[1]			
Merchandise exports	19.8[d]	+ 1.0	+ 2.7
Merchandise imports	14.8[d]	− 2.7	+ 0.3
Excess of exports	5.0[d]	+13.5	+10.3
Consumer credit outstanding[2]			
Total credit	54.9[b]	0.0	+ 1.4
Instalment credit	42.6[b]	− 0.2	+ 1.0
Business loans[2]	36.5[b]	+ 1.8	− 1.3
Cash farm income[3]	36.6[d]	+12.4	+ 2.0
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	112[a, e]	− 0.9	+ 4.7
Durable manufactures	105[a, e]	− 2.8	+ 2.9
Nondurable manufactures	121[a, e]	+ 0.8	+ 7.1
Minerals	98[a, e]	0.0	+ 2.1
Manufacturing employment[4]			
Production workers	97	+ 0.3	− 1.8
Factory worker earnings[4]			
Average hours worked	99	− 1.2	0.0
Average hourly earnings	176	0.0	+ 1.7
Average weekly earnings	175	− 1.2	+ 1.7
Construction contracts[5]	264	−15.2	− 3.7
Department store sales[2]	150[a]	0.0	+ 3.4
Consumer price index[4]	128	+ 0.2	+ 1.2
Wholesale prices[4]			
All commodities	119	− 0.1	− 0.3
Farm products	87	− 1.6	− 0.6
Foods	108	0.0	0.0
Other	128	+ 0.1	− 0.3
Farm prices[3]			
Received by farmers	89	0.0	+ 1.1
Paid by farmers	120	0.0	+ 0.8
Parity ratio	80[f]	0.0	0.0

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp. [a] Seasonally adjusted. [b] End of month. [c] Includes Hawaii and Alaska. [d] Data for August, 1961, compared with July, 1961, and August, 1960. [e] 1957 = 100. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961					1960
	Oct. 28	Oct. 21	Oct. 14	Oct. 7	Sept. 30	Oct. 29
Production:						
Bituminous coal (daily avg.)...thous. of short tons	1,498	1,437	1,475	1,433	1,463	1,359
Electric power by utilities...mil. of kw-hr.	15,263	15,162	15,125	15,035	15,340	14,271
Motor vehicles (Wards)...number in thous.	184	168	113	120	139	168
Petroleum (daily avg.)...thous. bbl.	7,128	7,118	7,153	7,112	7,156	6,821
Steel...1947-49 = 100	119	119	120	122	124	90
Freight carloadings...thous. of cars	648	651	642	640	638	621
Department store sales...1947-49 = 100	152	163	156	164	156	149
Commodity prices, wholesale:						
All commodities...1947-49 = 100	118.6	118.6	118.5	118.5	118.7	119.6[a]
Other than farm products and foods...1947-49 = 100	127.2	127.2	127.1	127.0	127.1	128.0[a]
22 commodities...1947-49 = 100	84.2	83.7	83.9	83.6	83.7	83.4
Finance:						
Business loans...mil. of dol.	31,877	32,020	31,843	31,776	31,794	31,631
Failures, industrial and commercial...number	304	398	341	330	286	331

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for October, 1960.

RECENT ECONOMIC CHANGES

Housing Vacancies Unchanged

There was virtually no change in the nation's residential housing vacancy rates during the third quarter of 1961. The rental vacancy rate was 7.9 percent and the homeowner vacancy rate was 1.4 percent, according to a sample survey made by the Bureau of the Census.

The present rate for rental vacancies is substantially higher than in previous years, having risen from 5.8 percent in 1958, 6.6 percent in 1959, and 7.4 percent in 1960. The trend in homeowner vacancy rates has also been toward an increase in the supply of for-sale vacancies. The rates remained fairly stable for 1958, 1959, and 1960 at 1.1, 1.1, and 1.2 percent. The present rate of 1.4 percent is at a slightly higher level than rates in the third quarter of previous years.

The quality of available vacancies as measured by plumbing facilities remained about the same. In the third quarter of 1961, 7 out of every 10 of the rental vacancies had hot running water and private flush toilet and bath, while 9 out of 10 of the homeowner vacancies had all plumbing facilities.

Gross National Product Reaches New High

The nation's output of goods and services rose to a seasonally adjusted annual rate of $526 billion in the third quarter, an all-time high, according to preliminary estimates by the Council of Economic Advisers. The gain of $9.9 billion over the previous period continued the general upsurge of the nation's real output from the low of $500.8 billion in the first quarter of the current year.

GROSS NATIONAL PRODUCT OR EXPENDITURE
(Seasonally adjusted, billions of dollars at annual rates)

	3rd Qtr. 1961*	*2nd Qtr. 1961*	*3rd Qtr. 1960*
Gross national product	526.0	516.1	504.1
Personal consumption	342.0	336.1	329.7
Durable goods	42.5	42.0	43.4
Nondurable goods	157.0	154.1	152.7
Services	142.5	139.9	133.6
Domestic investment	73.0	68.8	70.5
New construction	42.5	41.3	40.4
Producers' durable equipment	26.0	24.7	27.7
Change in business inventories	4.5	2.8	2.4
Nonfarm inventories only	4.1	2.4	2.0
Net exports of goods and services	2.5	3.9	3.0
Government purchases	108.5	107.3	101.9
INCOME AND SAVINGS			
National income	n.a.	426.0	419.0
Personal income	420.2	417.3	405.5
Disposable personal income	367.8	361.8	354.4
Personal saving	25.8	25.8	24.6

* Preliminary estimates by Council of Economic Advisers.
Source: U.S. Department of Commerce.

The major factor in the third-quarter rise was an increase in the rate of inventory build-up to an annual rate of $4.5 billion; this compares with a $2.8 billion rate in the previous period and $2.4 billion in the third quarter a year ago. Fixed investment rose to an annual rate of $68.5 billion in the third quarter, up $2.5 billion from the previous period and $400 million from a year ago.

Personal consumption expenditures in the third quarter rose at a seasonally adjusted annual rate of $5.9 billion, chiefly as the result of higher spending on nondurables and services. At the same time, net exports declined and government spending rose.

Corporate Security Offerings Level Off

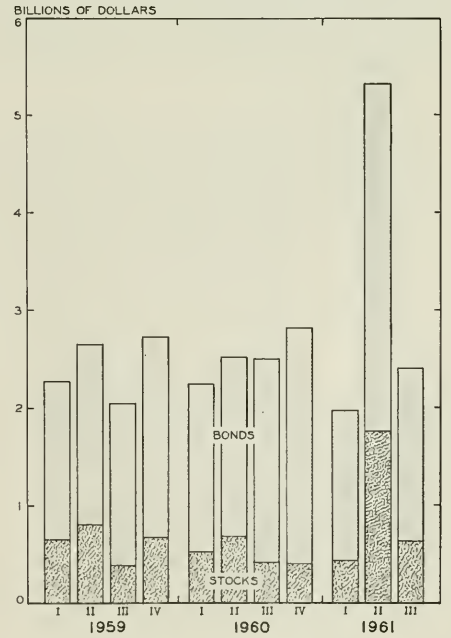
New corporate securities offered for sale in the third quarter of 1961 totaled $2.4 billion, excluding investment company shares. This was less than half of the record volume of new offerings in the previous quarter, but was about the same amount as in the third quarters of 1959 and 1960, as shown in the chart.

The lower volume of issues in the third quarter chiefly reflected a smaller number of large public offerings as compared with the previous quarter. Publicly offered securities amounted to $1.4 billion in contrast to $4.0 billion in the second quarter of this year (which included the A T & T common stock offering of $960 million). Secondary distributions of stock issues amounted to $275 million as against $550 million in the second quarter. The total of $1.1 billion in privately placed issues was 21 percent less than in the previous quarter but was larger than in most quarters of the last three years.

Among the major industry groups, manufacturing companies accounted for the largest portion of securities financing in the third quarter, as in the previous two quarters. For the first nine months of the year these companies issued $3.1 billion of new securities, double the amount in the same period of 1960. Electric and gas utility issues amounted to $2.2 billion in the first nine months of 1961, half a billion dollars more than last year. Consumer and sales finance companies issued $600 million

(Continued on page 8)

CORPORATE SECURITIES OFFERED FOR CASH



Source: Securities and Exchange Commission.

LABOR COURTS IN WESTERN EUROPE

WILLIAM H. McPHERSON
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An important aspect of the labor relations system of any nation is the method used for final adjudication of the day-to-day disputes on whether the individual employee is being treated by the employer in accordance with the provisions of labor legislation and any applicable collective agreement.

In the United States an employee's claim of violation of labor law that cannot be resolved by the worker and his employer is taken to the National Labor Relations Board or to our regular courts (depending upon which law is alleged to be violated). A complaint that the employer has failed to observe the labor agreement, which cannot be settled by the grievance procedure set forth in that agreement, is normally taken to an arbitrator selected and paid by the parties. These methods operate fairly satisfactorily, so that we come to think of them as being the only reasonable way of meeting the problem.

It may come as a surprise to many to learn that practically all other industrialized countries resolve similar disputes in entirely different and varying manners. A brief survey of the methods used by six West European nations may help us to evaluate more accurately our own system and to see possibilities for improvement.

A first look at the means of adjudication in these countries will give an immediate impression of uniformity. It is only upon closer inspection that significant differences of structure and operation appear. The most striking similarity is that in each of the countries to be considered unsettled individual grievances may be taken to a special type of government tribunal known as a labor court. These courts, moreover, are similar in that they all include employer and employee representatives acting as lay judges. We shall see, however, that they differ in many respects.

France and Belgium

The French labor courts have the longest history, the first one having been established by Napoleonic edict in 1806. From their beginning the outstanding characteristics of these courts have been that they are composed solely of lay judges and that these are not appointed but elected by their respective constituencies. During the early decades the employer representatives held a dominant position, but since 1848 employees have had equal representation.

There are 240 of these courts in France. They have separate sections for production workers and white-collar employees. In a few of the larger cities there are two or more sections for production workers, specializing by industry. Each section has at least 12 members, and some have as many as 40 or 50. A section usually meets one day a week. Four members sit at one time, so that most members are not called upon more than once in two or three months.

Since there is an even number of members, some provision must be made for the contingency of a tie vote. In this case a local judge is added to the group. Any American is likely to suppose that deadlocks must be so frequent that the judge might better be a permanent member of the court, but the fact is that during the last six years the five sections of the Paris court have deadlocked in little more than 1 percent of their cases.

There are two reasons for this success of the French bipartite system. In the first place, nearly all of the lay judges make a sincere effort at impartiality. Second, they are much influenced in difficult cases by the secretary of the section — a government administrative employee, who participates in all hearings and deliberations with voice but without vote and who is well versed in labor law and the decisions of the appellate courts.

Like most labor courts, the French ones have the legal obligation to make every effort to mediate each case. For this purpose they hold a brief preliminary hearing before a two-man panel. These sessions have been extremely successful. During the three years 1956 through 1958, 55 percent of the cases filed never reached a hearing before the four-man court. A further 8 percent were subsequently withdrawn and another 8 percent were defaulted, so that a decision had to be made in only 29 percent of the cases.

Appeal to a second instance is possible if the claims amount to more than $300. Of the decisions made by the Paris court in 1960, about half were appealable, and it may be estimated that slightly over one-third of these were actually appealed. These cases are carried to a special "Social Division" of a regional Court of Appeals. Its three members do not include any lay judges, but they do gain considerable insight into labor relations problems by their constant specialization in labor cases.

Cases for which there is no other appeal may be taken to the Supreme Court on a claim that the lower court committed an error in the solution of the problem as shown in the judicial opinion. Appeals of this type are relatively rare.

The Belgian labor courts are direct descendants of their French forebears. They differ in only one major respect. A few years ago an appellate labor court was established, so that the first appeal is now heard by a bipartite group of lay judges. The French unions have advocated a similar change in their country, urging that the bipartite method of dispute settlement by the representatives of the two parties has been so successful that it should be extended to the second instance. They have been opposed in this by the jurists and the employers' associations, which argue that labor legislation has so increased in recent years that the rulings on appeal should be only in the hands of trained jurists. The present compromise has been the creation of the Social Divisions in the appellate courts.

West Germany

The labor courts of West Germany have evolved from those established by the French in the Rhineland area during Napoleonic times. Two major changes in composition were the appointment of the lay judges by the government from among persons nominated by the unions and employers' associations, and the addition in 1890 of a neutral chairman, making the German courts tripartite.

A frequently disputed question regards the requirement of legal training for the chairman of the local courts. This was required by the Labor Court Law of 1926. The 1946 law provided that they be "particularly competent on labor matters and capable of assuming the function of judges by reason of their former activities,

their studies or the functions they have exercised in employees' or employers' organizations." The 1953 act requires that they have the qualifications for judicial appointment or that they have had five years of experience in giving legal advice on labor disputes or in representing litigants before the labor courts.

Each section of the local courts consists of a neutral chairman and two or four lay judges. These latter, like their French counterparts, appear to act with marked objectivity and seem to be under relatively little pressure from the organizations that nominated them.

The preliminary mediation session is held by the chairman without the participation of lay judges. Analysis of the history of a sample of nearly 28,000 cases filed during 1949 suggests that mediation may be even more successful in Germany than in France. Of these cases, 61 percent did not reach a final hearing, and only 9 percent resulted in a contested decision. An analysis of cases handled in 1951 showed that 11 percent were similarly decided.

Cases involving claims in excess of $75 may be appealed to a State Labor Court. These appellate courts are similar in composition to the local courts, except that the chairman must be a trained judge. The third instance is the Federal Labor Court, each chamber of which consists of three trained judges and two lay judges. It will be noted that, in contrast to the French situation, the German labor courts are entirely independent of the regular courts, and include lay members even in the final appeal.

Scandinavian Countries

Norwegian labor agreements used to provide for the settlement of disputes regarding their interpretation by *ad hoc* tripartite arbitration panels. In 1915 the union and employers' confederations concurred with some reluctance in the establishment of a national labor court, composed of one trained judge and four lay judges. Experience showed that in Norway, unlike France and Germany, the lay judges seldom reached agreement, so that the vote of the chairman was usually decisive. To reduce the pressure on him, two more neutral members were added in 1927. In 1937 the creation of local labor courts, consisting of a local judge and two lay judges, was authorized.

Unlike France and Germany, Norway requires the plaintiff to submit a detailed prehearing brief. A copy is forwarded to the defendant, who submits a full reply. This exchange of briefs frequently leads to an agreement and withdrawal of the case.

In further contrast to France and Germany, Norway does not require its labor court to attempt mediation. There is no preliminary hearing. The chairman, however, has long made a practice of interrupting the hearing for a mediation effort whenever he thinks the chances are good. The results have been encouraging. During 1959 65 cases came before the court. Of these, one was transferred to another court, 24 were withdrawn when agreement was reached during the exchange of briefs, 12 were settled by agreement reached during the hearing, and 28 were decided by judgment. There has been much recent discussion of introducing a regular preliminary hearing.

Sweden's national labor court consists of three trained judges and four lay judges. There are no local labor courts. Prehearing briefs are exchanged, but seldom lead to agreement, probably because the unions and employers' associations are more successful in settling cases without referral to the court. This success is seen in the fact that the court normally receives only some 40 cases a year.

A preliminary meeting with the chairman is held, but its purpose is to assure that the parties are thoroughly prepared for the hearing, and mediation is not attempted. Sometimes further negotiation is suggested. Contrary to the experience in Norway and Denmark, decisions are unanimous in about 80 percent of the cases.

Denmark's single labor court is composed of one trained judge and six lay judges. A unique feature is that the latter are named, rather than nominated, by the national confederations of the unions and the employers' associations. Another is that the chairman's lone vote is decisive in the frequent cases where the lay judges do not reach agreement. He does not have to obtain a majority for his position.

Denmark makes more use of private arbitration than the other countries considered here. The parties arbitrate when they wish to clarify the meaning of an agreement. They use the court when they seek damages or penalties for violations of an agreement. As might be expected, this jurisdictional boundary line is often difficult to apply.

The court holds preliminary mediation sessions before the chairman and two lay judges. Denmark is famous for its high proportion of mediation settlements. About 90 percent of its cases are disposed of at the preliminary hearing. The results are truly impressive, but actually not quite as striking as would at first appear. One reason for the many agreements is that some cases are brought to court which should have been settled by the confederations in advance. It is customary for the parties, after a brief oral presentation, to withdraw to an adjoining room for private consultation. Personal observation has revealed that they sometimes withdraw (and reach agreement) before the chairman has made a single comment about the case. It seems safe to conclude that such cases should never have reached the court. In this connection it may be noted that, in spite of the widespread use of private arbitration, the Danish court receives about 100 cases annually, as compared with about 40 for the Swedish court.

The method of classifying settlements also tends to exaggerate the success of mediation. Sometimes the parties return from their private conference to report that they have agreed to request a decision by the chairman rather than carry the case to the full court. Such cases are classified along with others as "withdrawn by agreement."

These minor considerations should not detract from the fact that the skill of the chairman and the cooperative attitude of the representatives of the parties lead to very satisfactory results.

Analysis and Implications

Even this brief survey of the structure and operation of these six settlement institutions is sufficient to demonstrate that there exists a marked similarity of basic approach to the problem, together with numerous variations of detail. In each of these countries unsettled grievances are usually adjudicated by a government agency which is staffed in large part by representatives of the confederations. Space will permit only a very brief contrast of this method with our own. This comparison will be made in terms of the following criteria: speed of settlement, moderateness of cost, and technical proficiency of the decision-makers.

An initial determination is usually reached more rapidly by the labor courts than under private arbitration. No time is consumed in the selection of an arbitrator, and the case goes promptly to hearing. There is little delay in the announcement of the ruling. Most of the courts make an oral statement of their decision before the end of the hearing-day, though they may need a month to issue the formal ruling and opinion. On the other hand, the decision is not final, but usually subject to appeal, except in Sweden and Denmark. We must conclude that most cases are settled more expeditiously under the European system than under the American, but that the opposite is true when appeal is taken, since our arbitrators' decisions are final.

The costs of litigation in the labor courts are normally much lower than in the regular courts. The charges are only nominal. They are insignificant in the majority of cases where settlement is reached without a formal ruling. By contrast, the total costs of American arbitration are relatively high, though many parties could economize without reducing the effectiveness of their presentation.

Both systems put great emphasis on the importance of placing the decisions in the hands of persons who have a thorough understanding of the complexity and subtleties of the labor-management relationship. The American arbitration system is outstanding in this respect. On the other hand, in the United States many cases of the type that would go to a European labor court are adjudicated not by arbitration but by the regular courts. In these cases we often lose the expertise that is developed by the labor court judge through his constant specialization in labor relations cases.

This brief analysis does not indicate that one system is better than another. It may perhaps serve to show some of the relative strengths and weaknesses of each system and to suggest some of the respects in which labor and management in each country can seek to perfect their own system.

Recent Economic Changes

(Continued from page 5)

of new offerings this year, about half the volume of last year. Other financial and real estate companies increased their offerings this year.

Wholesale Price Index Declines Slightly

Wholesale prices averaged 0.1 percent lower in September than in August, according to the Bureau of Labor Statistics. The wholesale price index edged down to 118.8 (1947-49 = 100), 0.3 percent below the level of a year ago, as shown in the chart. Sharp declines in prices of farm products following advances in July and August were responsible for the lower September index, industrial prices having moved up slightly.

With supplies of most livestock increasing seasonally, sales of live poultry at record levels, marketings of fruits and vegetables reaching or approaching seasonal highs, and an unusual drop in egg prices because of an unanticipated increase in egg production, the farm products index dropped 1.6 percent. Seasonally higher milk prices were the major exception to the downward movement in farm product prices, showing a 1.4 percent increase over August of this year. Among processed foods, price decreases for processed poultry, canned and frozen fruits and vegetables, and refined sugar were largely offset by higher prices for processed meats and dairy products.

Increased demand for packaging materials boosted prices for corrugated shipping containers, the most important single advance among industrial commodities. The metals continued their advance by averaging 0.1 percent higher under the influence of expanding industrial output. Prices of textiles, leather, and leather products extended their earlier recoveries, and minor advances were registered for rubber and rubber products and household durables. On the downward side, competition depressed prices of gasoline and problems of overcapacity continued to weaken some chemical prices. Sluggishness in residential building activity resulted in further price declines for lumber and wood products.

Housing Starts Show Increase

Construction was begun on 125,300 housing units in September, 1961, compared with 129,500 in August and 102,600 in September, 1960. The drop from August to September was somewhat less than the usual decline between these two months.

Privately owned housing starts totaled 120,400 units in September, down 5 percent from the August total but 24 percent above the number of units started in September, 1960. On a seasonally adjusted basis, September privately owned starts rose 3 percent from the August level.

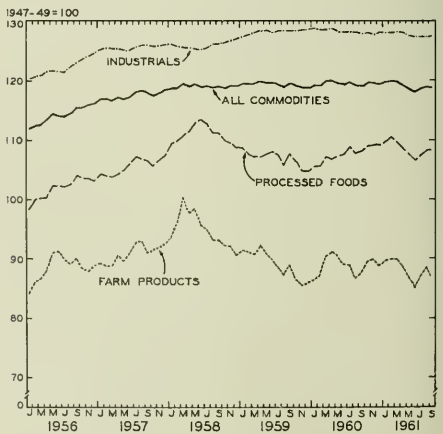
Dividend Payments Rise

Cash dividend payments by corporations issuing public reports amounted to $2 billion in September, bringing the total for the first nine months of 1961 to $10 billion. These represented 2 and 3 percent increases respectively over the corresponding periods of 1960.

The increase in disbursements over the previous year was due primarily to substantial gains among financial, oil refining, electric utility, and food and tobacco manufacturing companies. Altogether, some two-thirds of all the industries reporting showed increases.

The principal exception to the general advance was a 40 percent reduction in the total for the electrical machinery group, due primarily to a shift in the timing of disbursements by one of the largest companies in the industry.

WHOLESALE PRICE INDEXES



Source: Bureau of Labor Statistics.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Consumer Price Index Overhauled

A major overhaul is now underway in one of the nation's principal economic yardsticks, the consumer price index of the United States Bureau of Labor Statistics. Frequent adjustments in the pricing components have been made in the past in keeping with changing times and tastes. However, this is only the third thoroughgoing revision since the index was established 40 years ago.

Though popularly known as the cost of living index, in actuality the CPI has been registering the changing cost of a "market basket" of 300 items representing the normal expenditure pattern of urban wage-earner and clerical-worker families. The new index will be far more comprehensive. It is expected to cover 450 items in everyday living, half again as many as in 1950 and twice the number used in the mid-thirties. It will be based on data from 50 cities, including cities in Alaska and Hawaii. Still later, the coverage will be broadened to include rural nonfarm families. The revised index is also designed to add new products to its regular pricing lists, to take better account of the growth of discount houses and suburban stores, and to broaden the medical care and other service components of the index.

New Wage-Hour Law

An interpretative bulletin on how the amended Fair Labor Standards Act applies to the retail and service industries has been issued by the United States Department of Labor's Wage and Hour and Public Contracts Division.

The bulletin discusses coverage on the new enterprise basis as defined in sections 3(r) and 3(s)(1) of the Fair Labor Standards Amendments of 1961. The 1961 amendments extended coverage to enterprises having one or more retail or service establishments having an annual gross volume of sales of not less than $1 million and procuring goods for resale across state lines of more than $250,000 annually. Thus the amended law continues to exempt small businesses selling goods and services at retail. The bulletin also discusses other bases for exemption, which relieve employers from complying with the minimum wage and overtime pay requirements of the act.

About 2.2 million additional employees in retail trade and in service industries are entitled to the minimum wage of at least $1.00 an hour. Overtime compensation at time and one-half will not be required for these newly covered employees for a two-year period.

Personal Income Continues Upward

Aggregate personal income, before personal income taxes and individual social security payments, amounted to a new high of $411.5 billion in 1960.

As indicated in the accompanying chart, personal income comes from four major sources. Labor income, the largest source, has grown to represent about 70 cents of every dollar of total personal income, compared with 63 cents in 1939.

The second biggest source of personal income is made up of dividends, rental, and interest income, which represents the return on savings and investments. This type of income has shown a greater rate of growth since 1950 than has total personal income and has exceeded proprietors' income for the last two years. The combined return on savings crossed the $50 billion mark for the first time in 1960, when it represented about 13 cents of the personal income dollar. The big factor here has been a rise in personal interest income of 150 percent during the last decade, which contrasts with a 22 percent gain in rental income and a 53 percent increase in dividend income.

Proprietors' income amounted to over $48 billion last year, a new high, but nevertheless represented only 12 cents of the aggregate personal income dollar, the lowest proportion in more than two decades. Transfer payments, stemming largely from Social Security payments, expanded to $29 billion in 1960 and, for the third year in a row, represented more than 7 cents of the personal income dollar, the highest ratio so far.

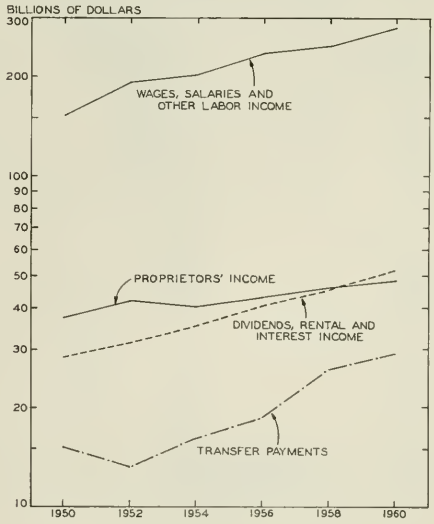
Improvement in Housing Quality

Important improvements in the over-all quality of the nation's housing occurred during the 1950's primarily because of the large amount of new housing built during the decade, according to the Bureau of the Census.

Some 95 percent of the total inventory of 58.3 million units in 1960 were considered in sound condition, as compared with only 90 percent of the 46.2 million units counted in 1950.

Associated with the over-all improvement in the quality of housing was a significant decline in the number of housing units that were dilapidated or lacking private toilet, bath, or hot water. As in the past, such dilapidated housing was more prevalent among rental units than among owner-occupied units. Some 88 percent of the 32.8 million owner-occupied units were classified as nondilapidated and containing all plumbing facilities, compared with only 76 percent of the 20.2 million rental units.

PERSONAL INCOME



Source: U.S. Department of Commerce.

LOCAL ILLINOIS DEVELOPMENTS

Soybean Production High

The 1961 Illinois soybean crop, which is almost completely harvested, is estimated at 160 million bushels. Priced at $2.20 a bushel, the crop is valued at $350 million. This year's output was harvested from 5.3 million acres in the State. In comparison, 5.0 million acres were planted in soybeans last year, from which 129 million bushels were harvested.

The current yield estimate for Illinois of 29 bushels per acre is at an all-time high, half a bushel above the previous record set in 1956. This places the State in a four-way tie for top yield with Indiana, Iowa, and Texas.

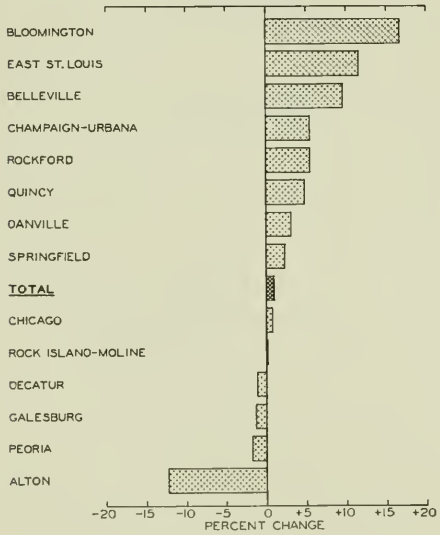
The Illinois crop is 24 percent greater than the 1960 crop and 49 percent above the 1950-59 average. It represents 23 percent of the national total. Nationwide, the soybean crop is 27 percent greater than last year and is valued at $1.5 billion, now ranking fourth among the nation's cash crops.

Illinois Bell Expansion

According to the 1960 *Annual Report* of Illinois Bell Telephone Company, it spent $190 million on new construction in 1960. This made possible the extension of direct distance dialing, dial service expansion, enlarged flat-rate calling areas, improved rural service, new products, and other improvements.

In 1960, the number of Illinois Bell telephone calls increased 4 percent over 1959. Of the record number of 5.5 billion calls, 287 million were long distance. To handle the greater number of calls, more than 2.3 million miles of wire — most of it underground — were added to the cable network. In addition, direct distance dialing was extended to 142,000 customers, and dial service was introduced in 24 Illinois communities.

CHANGES IN ELECTRIC POWER CONSUMPTION
1959 TO 1960



Sources: Local power companies.

The company's largest single defense installation in 1960 was at Arlington Heights, site of the United States Army Air Defense Command's new Missile Master center. This center is designed to coordinate all defense elements from aircraft detection to target destruction and is an integral part of the nation's first complete electronic weapon system. It can control the firing of 24 NIKE missile batteries from Libertyville on the north to Gary, Indiana, on the south.

Chicago Employment Rises

Hiring activity increased throughout the Chicago area during August and September as a result of seasonal pick-up and continued recovery in manufacturing industries. Wage and salaried employment rose sharply to 2,380,000 — 33,000 higher than the July figure, but still 10,000 below September, 1960.

Reopening of the schools added 14,300 state and local government jobs and increased nonmanufacturing employment to 1,550,000, a record high for the month of September.

Manufacturing employment rose to 830,000, an increase of 2 percent. This was largely the result of increased durable goods activity, with the sharpest gain occurring in electrical machinery.

A drop in unemployment from 171,000 to 131,000 between mid-July and mid-September was brought about by the rise in employment and by the return of students to school.

College Enrollment Increases

Enrollment in the six state-supported universities this September totaled 64,456, an increase of 5,414 over last year. Figures for these universities are as follows: Illinois (all divisions), 29, 821; Southern Illinois, 14,628; Northern Illinois, 8,111; Illinois State Normal, 5,220; Western Illinois, 3,367; and Eastern Illinois, 3,309. The largest percentage gain over 1960 enrollment among the state-supported institutions occurred at Western Illinois University where the increase was 22 percent.

Enrollment in 1961 in 112 public and private institutions of higher learning in Illinois totals 214,170. This figure represents an increase of slightly less than 8 percent over the total for 1960, according to the University of Illinois Bureau of Institutional Research.

Of this year's total, 107,583 students or 50.2 percent are registered in public institutions and 106,587 or 49.8 percent are registered in private institutions.

Electric Power Consumption

Total electric power consumption in 16 major Illinois cities increased 1 percent during the year 1960. Approximately 14.9 billion kilowatt-hours were consumed in 1960 as compared with a little less than 14.8 billion in 1959. In both 1959 and 1960 electric power consumed in these cities was 35 percent of the amount consumed in the entire State.

Cities having the greatest increases in power use in 1960 were Bloomington, East St. Louis, and Belleville, with gains of 17 percent, 12 percent, and 10 percent respectively over the 1959 level (see chart).

Alton experienced the greatest decline, with a decrease of 12 percent. The other cities where power consumption decreased — Peoria, Galesburg, and Decatur — showed declines of less than 2 percent each.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

September, 1961

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$53,947[a]	1,405,462[a]	$546,422[a]		$19,302[a]	$16,257[a]
Percentage change from	Aug., 1961	+17.8	+2.1	+10.9	+1	−4.7	+1.6
	Sept., 1960	−17.8	+5.9	+4.2	+1	−1.2	−5.5
NORTHERN ILLINOIS							
Chicago		$41,889	1,015,146	$390,886		$17,772	$14,052
Percentage change from	Aug., 1961	+28.3	+3.3	+10.2	+1	−5.1	+1.6
	Sept., 1960	−24.1	+5.5	+3.3	+3	−1.4	−6.8
Aurora		$ 159	n.a.	$ 8,600		$ 82	$ 157
Percentage change from	Aug., 1961	−75.0		+12.6	+6	+5.3	−5.7
	Sept., 1960	−76.8		−4.5	+2	−1.1	−1.0
Elgin		$ 700	n.a.	$ 6,039		$ 54	$ 119
Percentage change from	Aug., 1961	+45.5		+6.4	n.a.	+2.0	−1.5
	Sept., 1960	+12.2		−0.7		+4.9	+6.1
Joliet		$ 2,393	n.a.	$11,217		$ 93	$ 110
Percentage change from	Aug., 1961	+212.4		+11.4	+18	−7.1	−0.9
	Sept., 1960	+697.7		+8.6	+7	−4.1	+7.6
Kankakee		$ 133	n.a.	$ 5,254		n.a.	$ 59
Percentage change from	Aug., 1961	+41.5		+2.0	n.a.		+4.4
	Sept., 1960	+30.4		+2.5			−26.3
Rock Island-Moline		$ 1,001	32,388	$11,011		$ 124[b]	$ 172
Percentage change from	Aug., 1961	+4.3	+3.7	+12.9	n.a.	+7.2	+9.6
	Sept., 1960	−50.8	+8.8	+4.5		+10.1	+23.9
Rockford		$ 1,732	59,353[c]	$18,561		$ 215	$ 249
Percentage change from	Aug., 1961	+66.2	+3.3	+4.7	+5[c]	−0.6	+13.1
	Sept., 1960	+74.9	+10.1	+10.0	−7[c]	+5.0	+22.7
CENTRAL ILLINOIS							
Bloomington		$ 550	12,882	$ 6,266		$ 81	$ 141
Percentage change from	Aug., 1961	+135.0	−4.1	+16.9	n.a.	−10.1	+23.6
	Sept., 1960	−10.1	+12.3	+14.0		−4.4	+29.7
Champaign-Urbana		$ 381	18,157	$ 8,925		$ 89	$ 130
Percentage change from	Aug., 1961	−25.1	+3.4	+15.6	n.a.	+7.6	+16.2
	Sept., 1960	−5.9	+11.2	+18.6		+12.7	+1.9
Danville		$ 157	17,626	$ 6,487		$ 53	$ 71
Percentage change from	Aug., 1961	−6.5	+1.3	+10.5	−2[c]	−4.5	+11.3
	Sept., 1960	−68.6	+10.1	+4.5	+9[c]	−2.0	−0.4
Decatur		$ 248	40,776	$11,953		$ 129	$ 120
Percentage change from	Aug., 1961	−77.7	−2.5	+15.1	0	+13.8	−1.8
	Sept., 1960	−57.9	+7.6	+7.6	−4	+6.7	−2.6
Galesburg		$ 93	10,170	$ 5,015		n.a.	$ 42
Percentage change from	Aug., 1961	−84.0	+9.7	+31.0	n.a.		−6.8
	Sept., 1960	−58.3	+0.4	+12.4			−10.5
Peoria		$ 2,060	72,556[c]	$17,269		$ 229	$ 300
Percentage change from	Aug., 1961	−55.0	+2.1	+18.1	−4	−1.8	−2.0
	Sept., 1960	+121.0	+9.4	+5.1	+5	+1.3	−2.2
Quincy		$ 90	14,789	$ 5,730		$ 52	$ 77
Percentage change from	Aug., 1961	−76.9	−5.5	+15.8	n.a.	+3.2	+23.5
	Sept., 1960	−17.4	−3.5	+7.6		+1.1	+10.7
Springfield		$ 903	52,025[c]	$14,607		$ 140	$ 270
Percentage change from	Aug., 1961	−14.3	−6.8	+19.9	+11[c]	−0.2	−5.1
	Sept., 1960	−22.4	+6.5	+10.2	+19[c]	−0.3	−9.9
SOUTHERN ILLINOIS							
East St. Louis		$ 1,072	19,075	$ 8,730		$ 145	$ 73
Percentage change from	Aug., 1961	+473.3	−5.2	+13.3	n.a.	+2.9	+2.0
	Sept., 1960	+276.1	−7.7	−0.2		+1.2	+3.3
Alton		$ 134	25,906	$ 4,851		$ 44	$ 36
Percentage change from	Aug., 1961	−39.1	−9.8	+0.2	n.a.	−1.4	−0.5
	Sept., 1960	−83.1	+4.7	−4.0		−2.9	−1.6
Belleville		$ 252	14,612	$ 5,021		n.a.	$ 69
Percentage change from	Aug., 1961	+78.7	+1.5	+12.6	n.a.		+32.8
	Sept., 1960	+140.5	+2.4	+7.2			+41.9

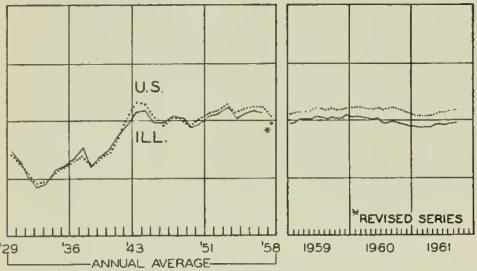
[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for August, 1961. Comparisons relate to July, 1961, and August, 1960. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports. Four-week accounting periods ending September 15, 1961, and September 16, 1960.

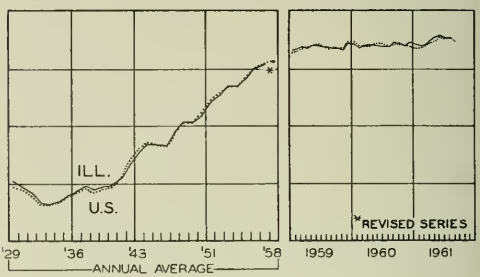
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

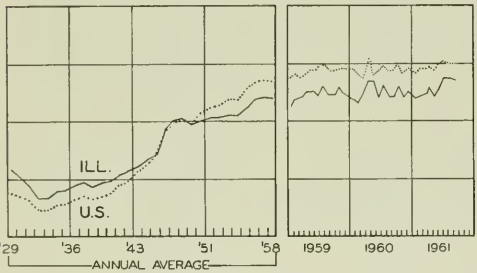
EMPLOYMENT MANUFACTURING



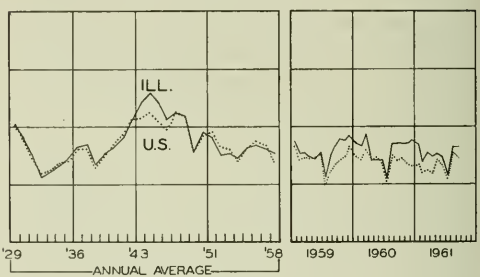
AVERAGE WEEKLY EARNINGS—MANUFACTURING



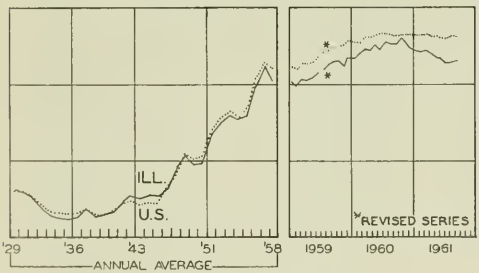
DEPARTMENT STORE SALES (ADJ.)



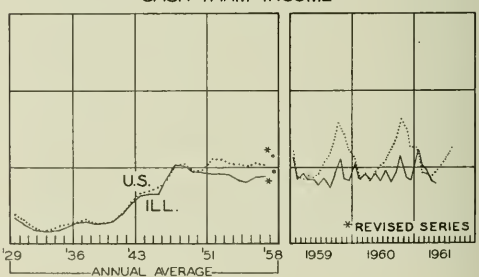
COAL PRODUCTION



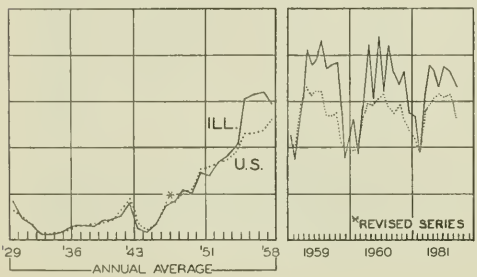
BUSINESS LOANS



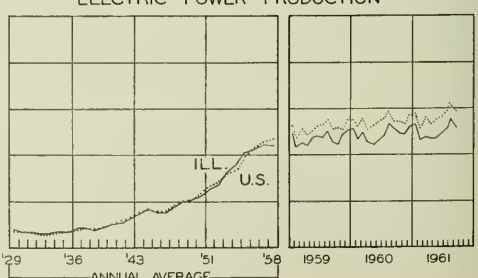
CASH FARM INCOME



CONSTRUCTION CONTRACTS



ELECTRIC POWER PRODUCTION



ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
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HIGHLIGHTS OF BUSINESS IN NOVEMBER

Business activity continued to expand during November. The seasonally adjusted rate of unemployment fell to 6.1 percent after hovering around 7 percent for 11 months. Sales of new domestically produced passenger cars hit a record for the month of 585,000 units, 10 percent more than in November, 1960, and department store sales rose 2 percentage points to 153 percent of the 1947-49 average after allowance for seasonal influences. The index of industrial production rose 1 point to 114 percent of the 1957 average. Automobile production was up sharply, and the weekly series for paper, paperboard, electric power, coal, petroleum, and lumber were stable or higher after allowance for seasonal influences. Although weekly steel production was down a little from October, new orders were picking up at the end of the month.

Construction Down Seasonally

The value of new construction put in place during November amounted to $5.1 billion, 3 percent below the preceding month. The decline was slightly less than normal for this time of year, so the seasonally adjusted annual rate of new construction rose about 1 percent. As compared with November, 1960, the total for the month was up about 6 percent.

Private construction expenditures in November were down 2 percent to $3.6 billion. Of this amount, spending for private nonfarm residential buildings accounted for $2.1 billion, a decline of 1 percent compared with the normal 4 percent drop between October and November. The gain over November, 1960, amounted to 13 percent.

Public spending on new construction totaled $1.4 billion, reflecting the normal decline of 12 percent from October. Highway construction was off more than seasonally, but construction of military facilities rose.

Consumer Debt Rises

In October, for the first time in 11 months, consumers increased the volume of their outstanding debt in the form of automobile paper. Seasonally adjusted, the advance amounted to $69 million. This, with additions of $22 million in other consumer goods paper and $105 million in personal loans and a small net repayment of repair and modernization loans, produced a seasonally adjusted rise of $184 million in the total of instalment debt, the first substantial increase in nearly a year. Noninstalment debt of consumers in October rose $27 million after seasonal adjustment, small increases in service credit and single-payment loans more than offsetting a small decrease in outstanding charge accounts.

At the end of October total instalment debt amounted to $42.7 billion, of which automobile paper accounted for about two-fifths, other consumer goods paper and personal loans each about one-fourth, and repair and modernization loans the rest. Noninstalment debt amounted to $12.3 billion.

Sales Set Record

Total sales of trade and manufacturing firms rose to a record $63.0 billion in October, after allowance for seasonal factors. The total was up $1 billion from the strike-restricted September level and $400 million from the previous record of April, 1960. Retailers enjoyed the biggest gain over September, a rise of nearly 3 percent to $18.6 billion, but manufacturers' sales of $31.8 billion were up 1 percent and those of wholesalers increased almost 2 percent to $12.6 billion.

Business firms continued to add to inventories in October, but by a smaller amount than in the month before. Seasonally adjusted stocks of manufacturers, wholesalers, and retailers increased $300 million to $93.0 billion. Most of the expansion came in manufacturing, but retail inventories also rose.

Tax Write-offs Speeded

The Kennedy Administration has begun a program to provide for faster write-offs of machinery for tax purposes in particular industries through administrative revision of the so-called "useful lives" schedule. Reductions in the useful life schedule for textile machinery from 25 years generally to 15 years in most cases and 12 years in some have been announced. Special engineering studies are to be made in six additional industries — aircraft and parts, automotive, electrical machinery and equipment, metalworking machinery and machine tools, railroads, and steel mills — in preparation for revision of their depreciation schedules next spring.

The effect of such reductions is to increase the amount of depreciation expense that can be charged against income currently and thereby reduce corporate tax liabilities. It is hoped that this will induce firms to expand their investment expenditures.

FEDERAL AGRICULTURAL LEGISLATION IN 1961 · · By R. G. F. Spitze · · Page 6

ILLINOIS BUSINESS REVIEW

Monthly except July-August when bimonthly

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Masters Without Servants

During the recent business upturn, spending for consumer goods has lagged behind most other business indicators. Nevertheless, total consumption expenditures have been rising consistently, the result of the ever increasing outlays for various types of services.

Next to the contrary cyclical movement of the percentage of income saved (discussed in the September issue), the mounting expenditures for services during both good years and bad has been one of the striking characteristics of postwar consumer behavior. In the last decade, consumers have more than doubled their expenditures for services while purchases of goods have increased about two-fifths. Equally remarkable has been the uniform nature of this increase. Contrary to expenditures on goods and contrary to the movement of consumer incomes, cyclical fluctuations in service expenditures have been virtually nonexistent.

As a result, service expenditures during 1961 will constitute 42 percent of total consumer outlays, exceeding for the first time the prewar high (41 percent) attained in 1929. This movement has not been uniform, the service share having declined from 1929 to 1948, first because of the depression and, in the early postwar period, because of the rush to buy goods. Since 1948, however, it has been rising steadily. To be sure, roughly half of the rise in service expenditures during the past decade has been due to higher prices. However, even after adjustment for this factor, expenditures for services have risen at a greater and more consistent rate than outlays for goods.

Moreover, the current high levels of service expenditure make no allowance for the concealed component of services in the sale of many types of goods. Thus, the packaging and freezing of foods is included as part of the sale of nondurable goods rather than as part of services, even though what the consumer is getting for his extra money is not additional food, but service. In a similar manner, warranty contracts attached to the sale of appliances are included in the sale of these goods, not as a service expenditure.

Diverse Patterns

Interestingly enough, the postwar upsurge in service expenditures has been characterized by very different rates of growth among the principal types of services, increases which have taken place for very different reasons. Thus, the postwar housing boom has brought about a rise of 120 percent in outlays for owner-occupied housing. The aging of the population combined with improvements in medical techniques has led to an increase of roughly 115 percent in outlays for medical care. The growing affluence of the population has helped to raise expenditures for personal business by almost 160 percent, representing in part interest on personal debt and in part services provided by banks, insurance companies, and brokerage firms; and the rapid growth of more intricate mechanical goods has brought forth a large new industry devoted to the maintenance and repair of anything from talking dolls to central air conditioning systems.

The rising birth rate and the soaring costs of education, combined with a desire for mental improvement, have boosted expenditures for private education by 150 percent. Concomitantly, a growing desire to see the world (or at least to get away from home!) and to enjoy oneself has brought about an increase of 165 percent in travel expenditures and of 60 percent in spectator amusements and related activities—of which pari-mutuel betting has experienced the biggest increase. Finally, if people are to travel and to mingle more socially, they obviously have to look better, with the result that hairdressers and barbershops have experienced an increase of 120 percent in their business.

Maturing in Comfort

Perhaps most basic of all, this rising trend of service expenditures is symptomatic of a maturing nation. In its early years, a nation is in no position to afford the luxury of services, except for such essentials as medical care and housing. As a nation grows it is able to divert more of its activities into cultural pursuits, the initial manifestation of which is the acquisition of numerous and many different types of goods, with a growing emphasis on durable goods. After a while, people begin to get tired of these new "toys," especially if the "toys" are not built sturdily. If the means are present, a tendency then arises toward the acquisition of services. With services, one does not have to worry about things breaking down or have the headaches of exchanging goods that do not work properly. This onerous task is left to somebody else. Tasks that used to be performed in the home, such as personal care and rug cleaning, can be delegated to specialists, leaving time for more enjoyable activities.

To be sure, many of these same operations were performed in the past by servants, at least for those few families who could afford them. Now, although domestic servants still exist, they are not used nearly so much, having been displaced by machines and by service agencies. Thus, instead of bringing in a woman to clean the rug, it is sent out to a specialized agency. Instead of repairing clothing at home, it is often sent out with the laundry for repair.

Service is the key to both personal status and business success, so much so that the expansion efforts of many large retail organizations are directed toward integrating more diverse service activities into their operations, and even "discount" stores feel the need to add services in order to sell goods. As our standard of living rises even higher, increasing interest may be expected in leasing goods rather than in owning them, as has been true recently for cars. We are not likely to reach the ultimate stage where people lease everything they use, but there is little doubt that we shall become even more than we are now a nation of masters without servants. RF

GLASS PRODUCTION

Glass is one of our most versatile materials. With a distinctive combination of physical and chemical properties, it makes possible many useful products that otherwise would probably not exist. Its widespread use is a relatively recent development. Only a century ago, glass produced in this country mainly served decorative ends and was a luxury item. Today, more than 1,000 distinctly different products, artistic and useful, are made from glass and are used by rich and poor alike.

The discovery of a successful method of food preservation in glass jars stimulated container production after 1809, but it was not until after the Civil War that glassmaking spurted, jumping nearly 600 percent by 1914 from the 1870 shipments level of $18 million. Principally contributing to this later expansion was the introduction of two important technological developments — the continuous melting tank, from which an endless supply of molten glass could be drawn (1888), and the Owens automatic bottle machine, which completely mechanized the bottle-blowing process (1903). Among the other important factors stimulating large-scale production were the elevation of living standards, the boom in building construction, and the appearance of many new industries requiring glass products.

Industry Portrait

The nation's glass today comes from 272 factories concentrated chiefly in the Midwest and Middle Atlantic states. The industry employs about 135,000 workers and ships an annual product of $1.8 billion, second largest among industries making products from non-metallic, non-fuel minerals.

The small one- to five-man glassmaking shop so prevalent a century ago has nearly disappeared, particularly in the manufacture of flat glass and glass containers. With the exception of producers of certain odd-shaped, limited-market items, the typical factory today is a sprawling, heavily mechanized works. The dominant role of the larger plants is strikingly shown by the fact that 170 plants with 100 or more workers accounted for 97 percent of industry output during 1958.

Glassmaking tends to be grouped into three major branches of production — glass containers, flat glass, and the more or less heterogeneous category of pressed and blown glass products. Container production is the largest segment, usually accounting for about half of total industry output. In a typical year, about nine-tenths of container shipments are purchased by four principal markets — the food, beverage, drug, and cosmetic industries. Nearly 90 percent of flat glass factory products are in the form of window or plate glass, of which the predominant share is taken by the construction and automotive industries. The diverse pressed and blown glasswares, which in 1960 accounted for an estimated 22 percent of total glass industry shipments, have many industrial consumers, the largest of which are in the electric, electronics, textile, and scientific fields.

Manufacturing Process

Although glass manufacture has evolved into a highly mechanized system during the present century, it still is essentially a three-step process: first, the raw materials are mixed, second, they are melted, and third, the molten glass is fabricated. In most plants, these steps occur in one continuous, mechanical sequence.

The raw materials mixture contains glass sand, soda, lime, potash, boric and lead oxides, and oxidizing, decolorizing, or coloring agents. Sand, freed of impurities, constitutes 60 to 80 percent of the finished product by weight and is always present, but the other ingredients vary according to the characteristics demanded of the finished product. The batch is exposed to temperatures between 1,200° and 1,600° F. for a prolonged period, usually 12 to 16 hours.

The final step — fabrication of the molten glass into various shapes — is accomplished by one or more of four fundamental methods: pressing, drawing, blowing, or casting. The first three methods are applicable in either large- or small-scale production. Casting, however, is mostly limited to manual operations; consequently, it is of minor importance. Of these methods, blowing is the most prevalent, being used on about 45 percent of all glass products made.

The Industry in Illinois

Illinois is a major center of glass manufacture, trailing only Pennsylvania in output. Although Illinois has only 15 factories, its shipments in 1958 reached an estimated $180 million, or nearly 10 percent of the industry-wide figure. More than 11,000 Illinoisans were employed in the industry during that year.

The state's only flat glass plant, located at Ottawa, is a large producer of automobile safety glass. Illinois is better known for glass containers, a product in which it ranks first nationally. Besides containers, which comprise about three-fourths of the state's shipments, and flat glass, other major glass products made in Illinois include mirrors, mosaics, and scientific apparatus.

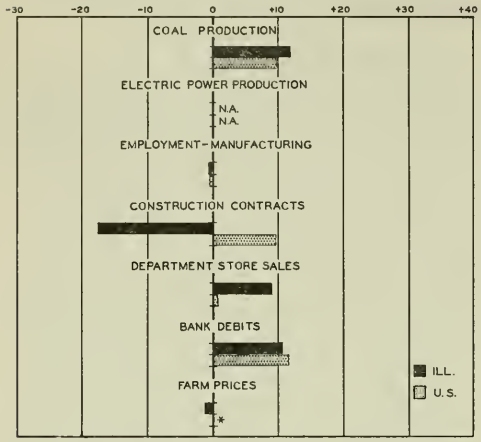
Glass production in Illinois occurs chiefly in the more heavily populated northern sector of the State. Six of the 15 plants are situated in Cook County, but La Salle with four plants, including two of the three largest in the State, leads all counties in production. Other Illinois counties where glass is manufactured are Logan, Montgomery, Will, and St. Clair, each of which has one plant.

Although the industry has faced increasing competition from other materials during the postwar era, it is expected to maintain the past rate of expansion because of the superior attributes of glass over substitutes in many traditional uses. Moreover, the newer applications, such as double-pane windows, building blocks, textile fibers, and throw-away bottles, have found increasing popularity. Finally, demand for glass products resulting from expected population increases and rising per capita consumption favors future growth of the industry.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS[a]

Percentage changes, September, 1961, to October, 1961



[a] Not seasonally adjusted. * No change. N.A. Not available.

ILLINOIS BUSINESS INDEXES

Item	Oct. 1961 (1947-49 =100)	Percentage change from Sept. 1961	Percentage change from Oct. 1960
Electric power[1]	250.8	− 2.5	+ 2.4
Coal production[2]	92.2	+11.9	+ 7.8
Employment—manufacturing[3]	97.2	− 0.6	− 0.9
Weekly earnings—manufacturing[3]	179.6[a]	+ 1.8	+ 4.2
Dept. store sales in Chicago[4]	130.0[b]	+ 4.0	0.0
Consumer prices in Chicago[5]	131.3	+ 0.2	+ 0.5
Construction contracts[6]	272.5	−17.5	−19.6
Bank debits[7]	244.4	+10.7	+10.4
Farm prices[8]	81.0	− 1.2	0.0
Life insurance sales (ordinary)[9]	333.1	+10.8	+ 7.0
Petroleum production[10]	122.5	+ 3.9	+ 2.5

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U.S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] Data for September, 1961, compared with August, 1961, and September, 1960. [b] Seasonally adjusted.

UNITED STATES MONTHLY INDEXES

Item	Oct. 1961	Percentage change from Sept. 1961	Percentage change from Oct. 1960
	Annual rate in billion $		
Personal income[1]	425.0[a]	+ 0.9	+ 4.6
Manufacturing[1]			
Sales	381.6[a]	+ 1.3	+ 7.4
Inventories	54.8[a, b]	+ 0.7	+ 0.7
New construction activity[1]			
Private residential	24.7	− 2.4	+ 8.6
Private nonresidential	19.2	− 1.4	+ 2.0
Total public	19.5	− 5.1	+ 4.8
Foreign trade[1]			
Merchandise exports	19.4[c]	− 2.2	− 7.3
Merchandise imports	14.1[c]	− 4.6	+ 1.7
Excess of exports	5.3[c]	+ 5.0	−25.0
Consumer credit outstanding[2]			
Total credit	55.1[b]	+ 0.3	+ 1.6
Instalment credit	42.7[b]	+ 0.4	+ 1.2
Business loans[2]	36.4[b]	− 0.2	− 0.9
Cash farm income[3]	39.8[c]	+ 8.9	− 1.0
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	113[a, d]	+ 1.8	+ 6.6
Durable manufactures	108[a, d]	+ 1.9	+ 6.9
Nondurable manufactures	120[a, d]	+ 0.8	+ 6.2
Minerals	99[a, d]	+ 1.0	+ 2.1
Manufacturing employment[4]			
Production workers	110[c]	+ 1.7	+ 3.3
Factory worker earnings[4]			
Average hours worked	101[c]	+ 1.5	+ 1.5
Average hourly earnings	177[c]	+ 0.9	+ 3.5
Average weekly earnings	179[c]	+ 2.4	+ 5.1
Construction contracts[5]	289	+ 9.6	− 0.8
Department store sales[2]	151[a]	+ 0.7	+ 2.0
Consumer price index[4]	128	+ 0.1	+ 0.9
Wholesale prices[4]			
All commodities	119	− 0.1	− 0.8
Farm products	87	− 0.1	− 2.7
Foods	108	+ 0.2	− 0.6
Other	127	− 0.2	− 0.5
Farm prices[3]			
Received by farmers	89	0.0	0.0
Paid by farmers	120	0.0	+ 1.7
Parity ratio	80[f]	0.0	− 1.2

[1] U.S. Dept. of Commerce; [2] Federal Reserve Board; [3] U.S. Dept. of Agriculture; [4] U.S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] End of month. [c] Data for September, 1961, compared with August, 1961, and September, 1960. [d] 1957 = 100.
[e] Revised. [f] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1961 Nov. 25	Nov. 18	Nov. 11	Nov. 4	Oct. 28	1960 Nov. 26
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,469	1,482	1,500	1,453	1,522	1,312
Electric power by utilities mil. of kw-hr.	15,330	15,678	15,520	15,396	15,263	13,884
Motor vehicles (Wards) number in thous.	146	180	177	180	184	128
Petroleum (daily avg.) thous. bbl.	7,210	7,206	7,178	7,154	7,128	6,992
Steel 1947-49 =100	118	118	119	119	119	79
Freight carloadings thous. of cars	495	591	605	619	648	471
Department store sales 1947-49 =100	184	180	169	154	152	173
Commodity prices, wholesale:						
All commodities 1947-49 =100	118.8	118.9	118.5	118.6	118.6	119.6[a]
Other than farm products and foods 1947-49 =100	127.5	127.6	127.3	127.3	127.2	127.9[a]
22 commodities 1947-49 =100	82.7	82.5	82.7	83.2	84.2	83.0
Finance:						
Business loans mil. of dol.	32,057	32,176	32,013	32,085	31,877	31,917
Failures, industrial and commercial number	238	308	336	344	304	276

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for November, 1960.

RECENT ECONOMIC CHANGES

Federal Spending Up in Fiscal 1962

Federal spending is expected to reach $89 billion in the fiscal year ending June 30, 1962, according to recent estimates. This will exceed actual outlays in fiscal 1961 by $7.5 billion.

In the first three months of fiscal 1962 federal budget expenditures reached $20.7 billion, while net budget receipts totaled $18.3 billion. The deficit for the quarter was $2.4 billion, double that of the corresponding period last year since fiscal spending totaled $960 million more than in the first quarter of 1961 and receipts were down $270 million from the same period.

The stepped-up defense program has still had little effect on the budget. In the first quarter of fiscal 1962, most of the year-to-year increase in federal spending occurred in nondefense areas, as indicated in the chart. The largest rise was in agriculture, where spending amounted to $1.8 billion, an increase of $450 million over the same period last year.

Budget receipts in the first quarter did not reflect, to any substantial degree, the anticipated higher level of collections stemming from the business recovery. In the first quarter of fiscal 1962, individual income tax withholdings were $90 million greater than a year before while excise tax collections were about the same. However, corporate income tax payments were $400 million less than in the first quarter of fiscal 1961.

Corporate Investment Up

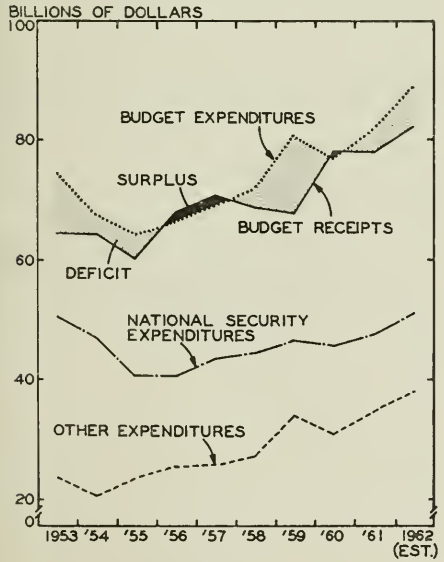
The rapid advance in production during the spring and summer quarters was accompanied by the usual change in corporate assets and liabilities. A sharp reversal in inventory policy occurred as sales picked up, and working capital increased. Plant and equipment programs have firmed up with advancing business, but the rise has so far been moderate. These investment expenditures have been financed primarily by the recovery in internally generated funds and by normal increases within the corporate structure in accounts payable.

The rise in inventories during the last two quarters reversed the inventory depletions which took place in late 1960 and early 1961. This rise was most marked among durable goods industries, to which the previous cyclical liquidation had been confined. Nondurable goods inventories continued to increase throughout both the recession and recovery period.

Corporate profits, after hitting a low of $40 billion at annual rates in the first quarter, recovered to $45 billion in the second, and the advance continued in the third quarter. With dividends stable and taxes taking about half the pre-tax profit rise, much of the increase in profits could be retained as working capital. Aided by a steady rise in depreciation charges on the growing capital stock, cash flow moved up nearly $5 billion during the second and third quarters.

New security issues during the second quarter were especially heavy, over $3.5 billion of bonds and notes and $1.5 billion of stock. However, the volume of these bond issues tapered off in the third quarter to $1.5 billion, a more normal rate for the current phase of the business cycle. There has also been a sharp spurt in corporate liquid asset holdings. Corporate holdings of cash and short-term Treasury securities rose sharply, counter to the usual seasonal pattern. As a result of the increased holdings of cash and Treasury securities, corporations maintained their liquidity in the face of rising operations.

THE FEDERAL BUDGET



Source: Bureau of the Budget.

Balance-of-Payments Deficit Continues

Foreign transactions of the United States during the third quarter resulted in an excess of payments over receipts approaching $800 million. The balance represents changes in the holdings of gold and convertible currencies by United States monetary authorities and in United States demand liabilities to foreign countries and international institutions.

United States gold holdings declined during the quarter just ended by $145 million, which offset a rise of about the same amount in June of this year. Both the rise and the later decline of the gold holdings were closely related to the foreign exchange difficulties of the United Kingdom and the assistance provided it by the International Monetary Fund.

Including the receipt of $650 million from special debt repayments in the second quarter, the deficit for the first three quarters was at an annual rate of about $1.5 billion. This compares with the much larger deficits of $3.7 billion and $3.9 billion respectively in the corresponding periods of 1959 and 1960.

Dividend Payments Rise

Cash dividend payments by corporations issuing public reports amounted to $987 million in October, compared with $922 million in the same month last year. The increase over October, 1960, centered in communications and in the electrical machinery manufacturing group.

(Continued on page 8)

FEDERAL AGRICULTURAL LEGISLATION IN 1961

R. G. F. SPITZE, Associate Professor of Agricultural Economics

Additions to federal farm policy made during the past year are of vital interest to urban as well as to rural residents. This legislation is destined to affect many phases of the economy — costs, farm income, consumer prices, and choices open to the farm operator. People are interested both because policy affects their day-to-day decisions and because they see need for policy changes. The emergency Feed Grain Program and the Agricultural Act of 1961 represented the most abrupt changes in farm programs since 1956, which marked the beginning of the Soil Bank. This discussion will focus primarily upon these two instances of agricultural legislation passed in 1961, although numerous other minor measures were also enacted.

Economic Setting for New Legislation

Economic conditions do not dictate government policy; people and political processes decide and make the decisions. However, the realities of the economic situation can greatly affect the course of such decisions. The economic setting of the 1961 agricultural legislation will be viewed briefly in terms of demand changes, supply trends, price levels, income comparisons, government program costs, and surplus commodities.

The quantity of food consumed per capita (retail weight equivalent) has remained essentially unchanged in the United States for over 50 years. But composition is a different story. Substantial shifts away from food grain products and starchy vegetables have been counterbalanced by steady increases in the consumption of fruits, certain vegetables, eggs, and red meats. Increased meat consumption accounts for greater utilization of raw materials in the form of feed grains than when food grains are consumed.

Over-all, population increases of about 1.5 percent a year in the past decade have brought about much higher demand for food. However, supplies of food have also been growing. Even with a rapidly declining farm labor force, rapidly increasing farm productivity has brought an annual increase of about 2.5 percent a year in food production. With the relatively greater increase in production as compared with the increase in population, prices that farmers receive have declined steadily, down 20 percent since the Korean War. During the same period, prices paid by farmers for production supplies and consumption have risen 7 percent.

With such imbalances between consumption and production changes, and between prices paid and received, one might expect farm income to deteriorate. But this has not happened. Rather, the rapid decrease in number of operators and the rapid increase in productivity of those remaining have acted as a protective shield. Nevertheless, farm workers apparently have not shared to the same degree as nonfarm workers in the fruits of prosperity. Farm income (including off-farm income) has changed little over the decade of the fifties, while nonfarm income has steadily improved. The substantial gap occurring historically between farm and nonfarm income has not been eliminated.

During the past 30 years, many attempts have been made, via governmental farm programs, to alter these economic conditions facing farmers. Some of them have been dismal failures; some have partially stabilized prices of particular products. The over-all effect has probably been to bolster farm income. But there has been a cost, borne by the federal treasury and the consumer. The public costs of farm programs to provide direct price and income benefits to farmers have been growing until the amount reached more than $2 billion a year recently. A concomitant of costs is the build-up in government stocks of farm products, whose value in original investment terms now totals $7 billion. Feed grains comprise 45 percent of this total, and wheat accounts for 40 percent.

A wide range of alternatives carefully designed by farm organizations, individuals, and the United States Department of Agriculture to remedy these economic conditions was therefore tossed into the hopper. When the heat of legislative battle, so characteristic of representative governments, had subsided, the laws discussed here had been passed.

Provisions of 1961 Legislation

Emergency Feed Grain Program. Soon after the 87th Congress convened in early 1961, feed grain legislation was adopted with unusual expediency. The approaching date for spring seeding hastened the need for "emergency" action. On March 22, 1961, Public Law 87-5, known as the Feed Grain Program, was approved.

This legislation called for acreage reduction in 1961 in two feed grains, corn and grain sorghum, by voluntary compliance of producers. To comply, farmers had to reduce their acreage of either or both crops at least 20 percent below average plantings of the previous two years and divert such acreage to soil-conserving, non-marketable uses. To induce voluntary compliance, price supports were offered to farmers for production on this lower acreage, up to the average per-acre yield of the last two years. Additionally, payments were offered on the diverted acreage.

Since 1959, price supports had been available to any corn producer on any part of his production at price levels equaling 65 percent of parity or 90 percent of the average price of the preceding three years, whichever was higher. In 1960 this support level was $1.06 a bushel. The new legislation left the price support level to the discretion of the Secretary of Agriculture, with a specified minimum of 65 percent of parity. He immediately announced a support of $1.20 per bushel for corn and $1.93 per hundredweight for grain sorghum for 1961.

Producers who complied received payments on the first 20 percent of the diverted acreage equal to 50 percent of the gross value of their normal yield at the price support rate. Thus, for a normal yield of 80 bushels of corn, the payment rate would be $48 an acre ($1.20 × 50% × 80). If the producer volunteered to reduce his acreage more than 20 percent, his payment for any additional amount up to 40 percent would be 60 percent of the gross value.

The producer with fewer than 100 acres of grain could place a greater proportion of his acreage under the program than the larger producer. Finally, farmers could collect half of their payments for diverted acreage as soon as they signed up at planting time and the other half just before and during the harvest period.

Payments to producers could be made in cash or in grain. Cash payment, which was the common method,

provided for a comparable sum to be raised by the government through disposal of sufficient surplus stock. This highly controversial measure gave the Secretary of Agriculture increased powers to affect market prices through release of government stocks. These powers could affect growers' reliance upon the price support floor to protect their prices for the coming year and therefore provide a greater inducement to comply.

Agricultural Act of 1961. With the emergency Feed Grain Program under way, Congress embarked upon more lengthy deliberation about an array of farm policy proposals directed at solving many problems. The result was the Agricultural Act of 1961, approved on August 8, 1961, which set forth new policies relating to feed grains, wheat, marketing orders, and credit.

Feed grain legislation inaugurated by the emergency measure in 1961 was extended in essentially the same form to 1962. The primary change was the inclusion of barley as a feed grain warranting price support and acreage reduction payment, along with corn and grain sorghum.

The wheat program provided by the new legislation was conditional upon farmer approval in a referendum held August 24, 1961. Since the necessary two-thirds vote was given (79 percent of the votes were favorable), the following provisions are in effect for the 1962 crop. As in the Feed Grain Program, price supports and payments are inducements to farmers to reduce their acreage. In contrast, however, a minimum reduction of 10 percent in acreage by each producer is mandatory if a severe penalty is to be avoided.

For many years wheat has been under an allotment program, but the law explicitly set a minimum national acreage of 55 million. The 1961 legislation starts with this figure for its downward adjustments. The producer can take his 10 percent acreage cut, avoid a penalty, and otherwise ignore the remainder of the program. Or if he desires to comply further by diverting the acreage taken out of wheat to conservation (non-marketable uses) he has two inducements. He is eligible for price support and also a payment equal to 45 percent of the gross value that he would have received on the diverted acreage. If he reduces his acreage from 11 to 40 percent, he is eligible for higher payments at the rate of 60 percent of the gross value. Again as with feed grain, payments may be in cash or grain.

For several years a minimum price support, related inversely to the level of supplies, has been in effect for wheat. For the 1961 crop (before the new legislation) the level set by the previous Secretary of Agriculture was $1.78 per bushel, or 75 percent of parity. The present Secretary has set the level of support under the new program at $2.00 per bushel or 84.4 percent of parity.

The law has traditionally protected small wheat producers from mandatory acreage cutbacks. Farmers with allotments of fewer than 15 acres could still produce up to that acreage without penalty — and without price support. Such production in excess of allotments has been accounting for about 10 percent of total output. Under the new legislation, the maximum acreage exempt from penalty is 13.5 acres or the highest acreage grown in the past three years, whichever is lower. Furthermore, no new growers can produce wheat for market without facing penalties.

Marketing orders also figured prominently in 1961 legislation. Pursuant to clearly established procedures for petitions, hearings, and referendums, orders provide government control via market quotas, price minima, promotion programs, and so on. Since 1933, marketing orders have been gradually appearing for such commodities as fruits, vegetables, and milk. Roughly one-seventh of the total farm receipts this year will be under the umbrella of the 124 existing marketing orders. Previously the law clearly identified those few farm commodities that were eligible for marketing orders. The new legislation, perhaps significantly, made all farm products eligible for marketing orders with the exceptions being specified. The immediate effect was to extend the eligibility for marketing orders to peanuts, turkeys, turkey hatching eggs, and with certain restrictions cherries, cranberries, and apples. Furthermore, soybeans were shifted to the excepted group.

A final major provision of the Agricultural Act of 1961 pertained to credit. The terms of loans made by the Farmers Home Administration, and the purposes for which they could be made, were revised. This government agency has been offering supervised farm credit since the 1930's. Maximum amounts that could be lent for purchase of an efficient family farm have been raised from $45,000 to $60,000, operating loan maxima have been raised from $20,000 to $35,000, and soil and water conservation loan limits have been increased for both the individual farmer and cooperative associations. Furthermore, FHA may guarantee to eligible borrowers farm ownership loans obtained from private agencies covering up to 100 percent of the "normal value" instead of 90 percent, and FHA may participate for the first time with such agencies in making operating loans.

Other agricultural legislation. Other important 1961 farm legislation generally involved the extension of laws already in effect. For example, Public Law 480, by which government-held farm products are exported under terms other than customary dollar sales, was extended for three years at about the same rate of expenditure. The Wool Act, which exemplifies a subsidy payment approach to income support, was extended for four years, and the School Milk Program was extended until 1967. By executive order, in contrast with legislative specification, the price support on soybeans was raised from $1.85 to $2.30 a bushel for 1961 as a complementary action to feed grain reduction efforts. Finally, numerous measures relating to food inspection, eradication of disease and pests, and grazing of federal lands were approved.

Implications

Politicians, news reporters, economists, interest groups, program administrators, and proponents and adversaries of these legislative enactments have made elaborate but widely divergent predictions about the outcome of these governmental policies. When one is dealing with millions of producers making individual decisions, with a complex nationwide marketing system, with the judgments of numerous personnel in governmental agencies, and with unpredictable weather, the outcome can hardly be considered determinate. Expectations must be cautiously expressed. It is easier to anticipate the direction of change than the magnitude. With one year's crop almost harvested, some of the results of the Feed Grain Program are much clearer than are the results of the Agricultural Act of 1961, which is just being implemented.

The compliance of feed grain producers in the emergency program idled about 21 percent of the corn and sorghum acreage planted in the past two years. How-

ever, the total reduction in grain output is expected to be about 10 percent, when the effects of closer planting, diversion of less productive land, increased fertilization, favorable weather, and other productivity factors are considered. The result should be a small deficit between current feed grain production and utilization for the first time in nine years. By the time a new harvest period is under way, government stocks will probably have diminished slightly. Similar compliance and supply results in the next crop year are uncertain unless further inducement is provided to the grower. As a minimum, wheat acreage will be reduced 10 percent and some reduction in production is also likely for 1962. It is not likely that wheat growers will increase their per-acre yield as much as did corn producers, because acreage restriction has already pushed them in this direction for many years. Soybean production increased dramatically this year, probably beyond utilization.

Farm income is being bolstered for feed grain producers in the current year and could likewise be affected in the year ahead with comparable compliance; a somewhat similar income change, though of lesser magnitude, seems in store for wheat producers. But if income is improved, there must be a source. The extra burden will be borne primarily by the public treasury, although a smaller one will be carried by the consumer. In the emergency Feed Grain Program, compliance payments alone will total $770 million; in addition there will be administration costs. To the extent that surplus stocks are slightly reduced, some counterbalancing savings in government program costs will result.

Higher feed grain costs tend to decrease meat production and increase consumer costs even though less than 50 percent of the consumer's dollar goes to the farm producer. For wheat, the burden of higher farm income will probably be proportionally greater for the Treasury and less for the consumer, since wheat is an export commodity, with resulting higher export subsidies, and since it undergoes extensive processing prior to consumption.

The further use of marketing orders now permitted under the new legislation could also take the form of higher producer income, restricted supplies, and higher consumer prices. However, here the government would share little of the financial burden. There seems little likelihood that numerous orders will be rapidly promulgated. The marketing order is a delicate tool, difficult to design effectively for most agricultural products and necessitating careful adaptation to ensure grower benefits.

In each of the policies selected for analysis from those emerging in 1961, one additional consequence is important: Continuing the trend of previous policies, the government has been brought more actively into the agricultural producing, marketing, and pricing spheres that affect decisions of farmers, processors, and consumers. For many years, it had previously been active in agricultural education, research, resource management (primarily in the West), and regulatory activities. In some respects these new enactments of 1961 have established, for agriculture, governmental responsibilities previously sanctioned in many nonfarm sectors of the economy. In other instances the powers of government now sanction a control of agricultural production that is achieved privately in other sectors through consolidation and concentration of economic power.

Only future experience, economic knowledge, and the multitude of judgments active in policy-making of a representative government can determine how effective the agricultural legislation of 1961 will be.

Recent Economic Changes

(Continued from page 5)

Gains also occurred in chemical manufacturing, finance, and electric utilities.

For the first 10 months of 1961 cash dividends amounted to $11 billion, some 2.5 percent above the total reported in the corresponding period a year ago. Two-thirds of the $270 million increase for the 10-month period occurred in the communications and public utilities groups. In manufacturing the 10-month total of cash dividends was 2 percent higher than a year ago, with most of the nondurable goods lines recording small gains while durables groups varied.

Labor Force Increases

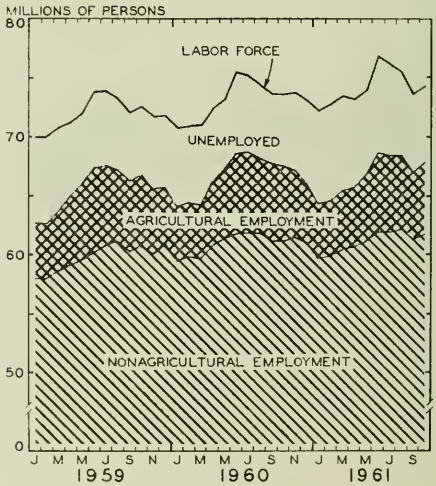
Total employment rose by 800,000 to 67.8 million in October, as shown in the chart. This increase was better than seasonal, reflecting a gain of 300,000 in agriculture. Total nonfarm employment has shown virtually no change, on a seasonally adjusted basis, since July.

Since the recession low in February of this year, nonfarm payroll employment has increased by 2.7 million, over 1 million more than the normal seasonal rise for this period. With this gain, it was back to its pre-recession level of May, 1960. The increase occurred in service-producing industries rather than the goods-producing sector, which was still below its pre-recession levels in October and has shown little gain in the past several months.

Contributing to the better-than-seasonal rise in October were increases of about 150,000 in state and local government employment and 130,000 in trade. Other major changes over the month included seasonal declines of 70,000 in food processing and 30,000 in construction.

At its October level of 71.8 million, the civilian labor force stands at a new all-time high for the month, about 700,000 above the year-ago total. However, an examination of 1961 labor force data for the first 10 months as a whole reveals that annual labor force growth averaged 1.2 million, in line with expected labor force growth in the early 1960's.

LABOR FORCE TRENDS



Source: U.S. Department of Labor.

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Farm Income Rises

Net income realized by farm operators this year is expected to total about $12.5 billion, 7 percent more than the $11.7 billion for 1960. This increase would push realized net farm income to the highest level since 1953.

Through September of this year cash receipts from farm marketings totaled about $34.5 billion, 2 percent above those for the corresponding period of 1960.

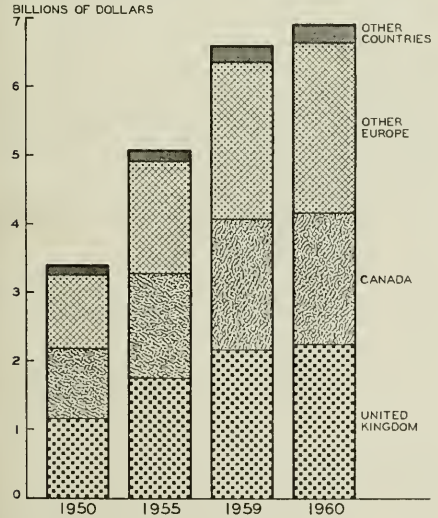
The average price for all farm products and the volume of marketings of livestock and products were both estimated to be about 1 percent above January-September, 1960. Receipts from livestock and livestock products were up just over 2 percent from the first nine months of last year, owing mostly to increased receipts from hogs, milk, and eggs. Crop receipts through September this year were about 1 percent larger than a year ago, with increases from soybeans, truck crops, citrus, and corn more than offsetting decreases from wheat and potatoes.

Realized gross farm income in the first three quarters of this year was estimated at a seasonally adjusted annual rate of $39.3 billion, $1.4 billion higher than in the corresponding 1960 period. The rise reflected increases in cash receipts and in government payments.

Foreign Investments in the U.S. Grow

Direct investments in the United States by foreign investors totaled $6.9 billion at the end of 1960, double the 1950 amount, according to the Department of Commerce. In addition foreign investors are estimated to have increased their portfolio holdings to $11.5 billion. For both types of investments, most of the gain represented reinvested earnings or rising market values rather than new inflows of foreign capital.

FOREIGN DIRECT INVESTMENTS IN THE U.S.



Source: U.S. Department of Commerce.

Between 1941 and the end of 1950, foreign direct investments in this country increased by an annual average of $100 million. During the 1950's the annual average jumped to $350 million, reflecting capital inflows of $155 million annually plus reinvested earnings of $170 million annually and some upward revisions of assets.

British companies have consistently been the largest holders of direct investments in the United States, as indicated in the chart. Currently these investors account for nearly one-third of total foreign investments, or about $2.2 billion. About 40 percent of this investment is in insurance. Manufacturing investments amount to $700 million, up $300 million from 1950, and investments in the petroleum industry are valued at over $300 million.

Canadian direct investments rank next to those of the United Kingdom, accounting for about one-fourth of the total in 1960. About $300 million of these investments are owned by Canadian subsidiaries of American corporations. This includes most of the petroleum investment.

Direct investments in the United States from other areas of the world are relatively small, except for Continental Europe; its investments totaled $2.5 billion at the end of 1960, two and one-half times the 1950 total.

Mortality Rates Increase

The death rate among holders of ordinary life insurance policies in 1960 rose slightly to 602.5 per 100,000 from 598.8 per 100,000 in 1959.

The death rate due to diseases of the heart, circulatory system, and kidneys decreased by 2 percent in 1960 because of changes in the age distribution of policyholders. Deaths due to cancer, the nation's second worst killer, were at a higher rate in 1960 than in 1959. The death rate for pneumonia and influenza rose sharply, from 1.8 percent of the total in 1959 to 3.2 percent during 1960. The death rate for tuberculosis continued to decline and reached a new low of 0.9 percent of the total in 1960.

Electric Auto Revived

The electric auto has been revived again. Stuart Motors, Inc., Kalamazoo, Michigan, is the latest company to develop a battery-powered car. Its version has a maximum speed of 35 miles an hour and a driving range of 35 miles after an eight-hour charge from a 110-volt household outlet.

Aimed at the growing family market for second cars where driving is limited to a few miles a day, the "Stuart" has a fiber glass body and seats two adults and three children. The company plans to begin production in January, 1962, with a production quota of 50 cars a month. The retail price has been set at $1,600.

Few Persons Illiterate

Only one out of every 45 persons 14 years old and over in the United States cannot read and write, according to the Bureau of the Census. In 1870, when such statistics were first collected, one out of every five persons 10 years old and over was illiterate. Since 1870, illiteracy has dropped from 12 percent to 2 percent for whites and from 80 percent to 8 percent for nonwhites.

Illiteracy rates are higher among men, older persons, the unemployed, in the South, and in farm areas.

LOCAL ILLINOIS DEVELOPMENTS

Industrial Aid for Counties

Twenty-three central and southern Illinois counties suffering from chronic unemployment have been certified as areas of critical labor surplus by the State Board of Economic Development. This action makes them eligible for help from the Illinois Industrial Development Authority, an agency designed to assist in bringing new industries to areas having labor surpluses by acquiring sites and buildings for lease to such industries. The Board of Economic Development, which includes the governor and certain state department directors, must certify these areas. This is the first action taken by this new agency, which was created in the last session of the General Assembly.

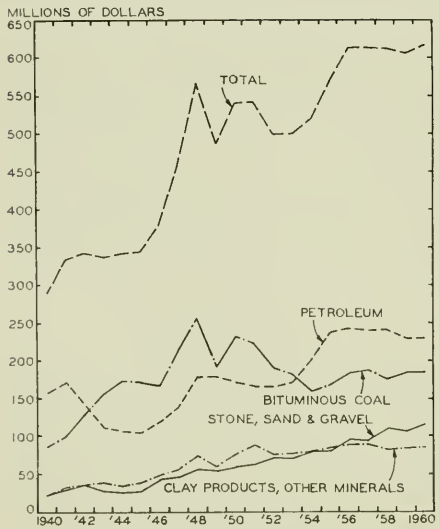
Counties designated as areas of critical labor surplus are Alexander, Bond, Christian, Clinton, Franklin, Gallatin, Hamilton, Hardin, Jackson, Jefferson, Johnson, Macoupin, Marion, Massac, Montgomery, Perry, Pope, Pulaski, Saline, Union, Wayne, White, and Williamson. Unemployment figures of other counties are being studied to determine whether they should be added and, according to IDA Chairman D. R. Bonniwell, several projects are being considered for industrial loans.

A separate but related development is a two-day meeting of federal, state, and local representatives, including officials of the Area Redevelopment Administration, in December to organize a task force to survey the economic problems of southern Illinois and use a combined approach in solving them.

Land Tenure in Illinois

Approximately 58 percent of the land under cultivation in Illinois is farmed by tenants, according to a recent release from the University of Illinois Department of Agricultural Economics. This accounts for 33.5 percent of all farms in the State.

MINERAL PRODUCTION IN ILLINOIS



Source: Illinois State Geological Survey.

The 1959 Census of Agriculture indicated that farms which were partly operated by the owners were the largest in Illinois. Such farms averaged 290 acres compared with 243 acres for tenant-operated farms and 162 acres for owner-operated farms.

As a group, tenants were the youngest farm operators. They averaged 42 years of age, while part owners averaged 48 years and full owners 55 years. Of farmers 55 years of age or older, only 19 percent were tenants, while 27 percent were part owners and 53 percent were full owners. Among those under 35 years of age, 72 percent were tenants, 19 percent were part owners, and only 9 percent were full owners.

The most valuable farm land in Illinois was farmed by tenants. The value of land and buildings on their farms averaged $373 an acre compared with $295 for farms of part owners and $276 for farms of full owners. Tenancy in Illinois has tended to be concentrated in the east-central part of the State where soil productivity is higher.

The value of all farm products sold was also highest for tenants, $66.42 an acre. Part owners marketed products valued at $54.76 an acre and full owners, $63.90 an acre. On an acre basis, owner-operators sold livestock valued at $41.26, tenants were next with livestock sales totaling $36.64, and part owners were last with $28.09.

Arbitration Law Enacted

Under a new arbitration act, which was signed into law by Governor Kerner in August, an arbitrator has the power to issue subpoenas enforceable in Illinois state courts for attendance of witnesses or production of books or records.

The act also provides for enforcing agreements to arbitrate in the state courts and for state court enforcement of arbitration awards.

The new law applies to all arbitration agreements, including those found in collective bargaining agreements, but the grounds for vacating, modifying, or correcting labor arbitration awards remain the same as before.

Mineral Output Value Rises

The value of Illinois mineral production rose to an all-time high of $615.8 million in 1960. The Illinois State Geological Survey reports that the total value of basic mineral products exceeded $600 million for the fifth consecutive year and topped the previous record set in 1956 by $2.4 million (see chart).

Over the last 25 years the mineral industry in Illinois has grown in annual value from less than $100 million to more than $600 million. The State ranked eighth in the nation in mineral production in 1960.

The value of fuels — coal, petroleum, and associated products — extracted in Illinois in 1960 accounted for 68 percent of the total value of all minerals. The second largest group of Illinois minerals in terms of value included the stone products — crushed stone, cement, and lime — which contributed 15 percent of the total and showed significant increases over the amounts reported for 1959. The value of sand and gravel production, which made up nearly 6 percent of the total in 1960, increased slightly over 1959.

Although the 1960 production of clay products in Illinois declined a little in total value, the $56.6 million contributed by this industry amounted to 9 percent of the state's over-all mineral products value.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1961

	Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[5] (000,000)	Postal Receipts[6] (000)
ILLINOIS	$40,310[a]	1,309,997[a]	n.a.		$21,363[a]	$18,752[a]
Percentage change from Sept., 1961	−25.3	−6.8		+9	+10.7	+15.3
Percentage change from Oct., 1960	−7.6	+6.7		0	+10.4	−4.6
NORTHERN ILLINOIS						
Chicago	$30,593	957,988	n.a.		$19,700	$16,286
Percentage change from Sept., 1961	−27.0	−5.6		+9	+10.8	+15.8
Percentage change from Oct., 1960	−8.5	+6.7		0	+10.7	−6.1
Aurora	$ 743	n.a.	n.a.		$ 79	$ 168
Percentage change from Sept., 1961	+367.3			0	−4.3	+7.1
Percentage change from Oct., 1960	−46.6			−5	−6.1	+2.1
Elgin	$ 499	n.a.	n.a.		$ 57	$ 160
Percentage change from Sept., 1961	−28.7			n.a.	+5.4	+34.4
Percentage change from Oct., 1960	−0.8				+9.8	+8.7
Joliet	$ 1,325	n.a.	n.a.		$ 99	$ 120
Percentage change from Sept., 1961	−44.6			−7	+6.5	+8.6
Percentage change from Oct., 1960	+194.4			−2	+8.0	+8.3
Kankakee	$ 378	n.a.	n.a.		n.a.	$ 77
Percentage change from Sept., 1961	+184.2			n.a.		+30.1
Percentage change from Oct., 1960	+54.3					−4.1
Rock Island-Moline	$ 1,100	28,098	n.a.		$ 120[b]	$ 210
Percentage change from Sept., 1961	+9.9	−13.2		n.a.	−3.7	+21.7
Percentage change from Oct., 1960	+0.6	+4.3			−3.8	+30.9
Rockford	$ 1,078	54,141[c]	n.a.		$ 212	$ 261
Percentage change from Sept., 1961	−37.8	−8.8		−1[c]	−1.4	+4.8
Percentage change from Oct., 1960	−3.1	+6.4		−12[c]	+4.3	+9.1
CENTRAL ILLINOIS						
Bloomington	$ 310	12,205	n.a.		$ 103	$ 140
Percentage change from Sept., 1961	−43.6	−5.3		n.a.	+26.4	−0.7
Percentage change from Oct., 1960	−63.1	+14.6			+21.1	+3.7
Champaign-Urbana	$ 649	16,766	n.a.		$ 105	$ 137
Percentage change from Sept., 1961	+70.3	−7.7		n.a.	+18.5	+5.7
Percentage change from Oct., 1960	+35.5	+12.4			+5.1	−2.0
Danville	$ 460	17,002	n.a.		$ 64	$ 82
Percentage change from Sept., 1961	+193.0	−3.5		+6[c]	+21.1	+14.5
Percentage change from Oct., 1960	+180.5	+19.9		+2[c]	+12.4	+11.1
Decatur	$ 597	38,448	n.a.		$ 149	$ 132
Percentage change from Sept., 1961	+140.7	−5.7		0	+15.9	+10.6
Percentage change from Oct., 1960	−12.7	+0.3		−11	+3.7	+0.8
Galesburg	$ 330	9,673	n.a.		n.a.	$ 54
Percentage change from Sept., 1961	+254.8	−4.9		n.a.		+29.8
Percentage change from Oct., 1960	−60.3	+4.3				+11.9
Peoria	$ 601	61,696[c]	n.a.		$ 260	$ 368
Percentage change from Sept., 1961	−70.8	−15.0		+17	+13.7	+22.9
Percentage change from Oct., 1960	+290.3	+6.1		+11	+13.0	+15.1
Quincy	$ 255	12,949	n.a.		$ 63	$ 77
Percentage change from Sept., 1961	+183.3	−12.4		n.a.	+21.4	−1.1
Percentage change from Oct., 1960	−87.0	+2.3			+14.8	−9.9
Springfield	$ 922	44,264[c]	n.a.		$ 158	$ 300
Percentage change from Sept., 1961	+2.1	−14.9		+7[c]	+13.0	+11.3
Percentage change from Oct., 1960	+12.7	+14.1		−1[c]	+8.9	+0.5
SOUTHERN ILLINOIS						
East St. Louis	$ 124	18,129	n.a.		$ 146	$ 75
Percentage change from Sept., 1961	−88.4	−5.0		n.a.	+1.2	+3.0
Percentage change from Oct., 1960	+72.2	−7.0			+1.5	−3.9
Alton	$ 236	26,230	n.a.		$ 48	$ 41
Percentage change from Sept., 1961	+76.1	+1.3		n.a.	+8.3	+14.8
Percentage change from Oct., 1960	+90.3	+5.6			+11.7	−3.4
Belleville	$ 110	12,409	n.a.		n.a.	$ 63
Percentage change from Sept., 1961	−56.3	−15.1		n.a.		−7.5
Percentage change from Oct., 1960	+13.4	+8.7				+14.4

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] Local sources. Data include federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. [4] Research Department of Seventh Federal Reserve Bank (Chicago). Percentages rounded by source. [5] Federal Reserve Board. [6] Local post office reports. Four-week accounting periods ending October 13, 1961, and October 14, 1960.

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